

High Valuation in US Stock Market and Narrative Dynamics

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For session including Jeremy J. Siegel

Jacobs Levy Center Conference

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Long History, Jeremy and I



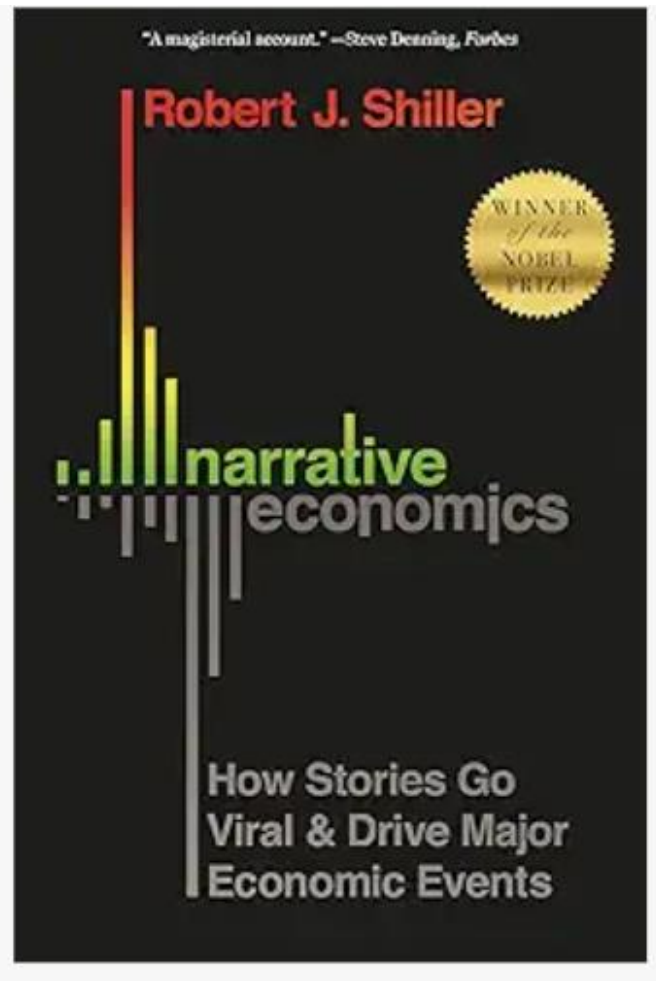
This Presentation Is a Followup to One I Did Six Years Ago (also with Jeremy Siegel)

Are Stocks Too High? A Historical Perspective

Robert J. Shiller (Presenting joint work with Farouk Jivraj)
2018 Jacobs Levy Center Conference



One Year Later, in 2019, I Published Another Book



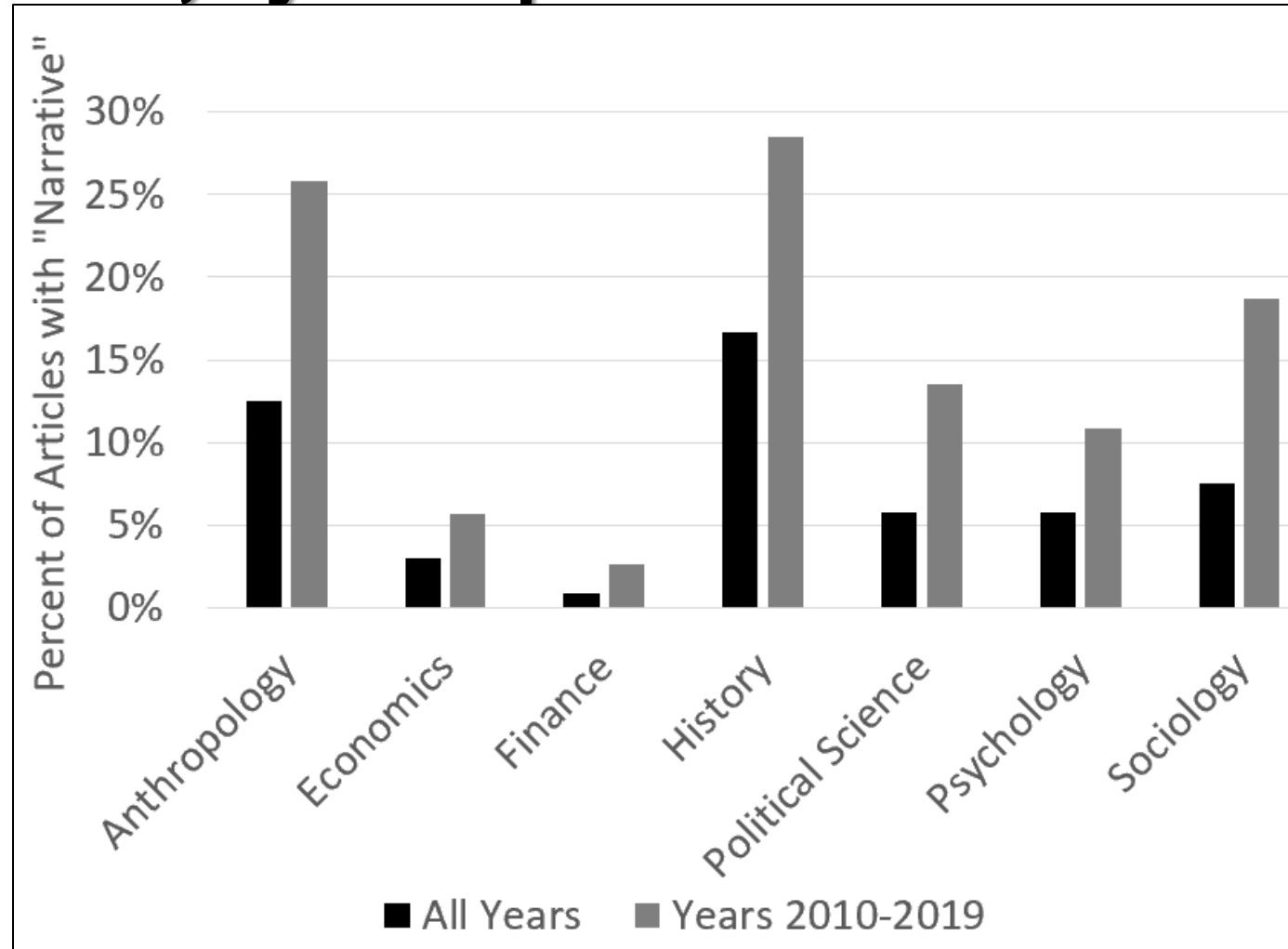
Contents

<i>List of Figures</i>	vii
<i>Preface to the 2020 Paperback Edition</i>	ix
<i>Preface: What Is Narrative Economics?</i>	xv
<i>Acknowledgments</i>	xxvii
Part I The Beginnings of Narrative Economics	
1 The Bitcoin Narratives	3
2 An Adventure in Consilience	12
3 Contagion, Constellations, and Confluence	18
4 Why Do Some Narratives Go Viral?	31
5 The Laffer Curve and Rubik's Cube Go Viral	41
6 Diverse Evidence on the Virality of Economic Narratives	53
Part II The Foundations of Narrative Economics	
7 Causality and Constellations	71
8 Seven Propositions of Narrative Economics	87
Part III Perennial Economic Narratives	
9 Recurrence and Mutation	107
10 Panic versus Confidence	114
11 Frugality versus Conspicuous Consumption	136
12 The Gold Standard versus Bimetallism	156
13 Labor-Saving Machines Replace Many Jobs	174

vi CONTENTS

14 Automation and Artificial Intelligence Replace Almost All Jobs	196
15 Real Estate Booms and Busts	212
16 Stock Market Bubbles	228
17 Boycotts, Profiteers, and Evil Business	239
18 The Wage-Price Spiral and Evil Labor Unions	258
Part IV Advancing Narrative Economics	
19 Future Narratives, Future Research	271
<i>Appendix: Applying Epidemic Models to Economic Narratives</i>	289
<i>Notes</i>	301
<i>References</i>	325
<i>Index</i>	351

Shiller Narrative Economics 2019: JSTOR Counts of Word “Narrative” as Percent of All Articles, by Discipline



Kermack-McKendrick SIR Disease Epidemic Model, 1927 (Compartmental or SIR Model)

S =fraction of population susceptible, I =fraction of population infected and now contagious, R =fraction of population recovered and now immune, $S+I+R=1$, c =contagion parameter, r =recovery rate

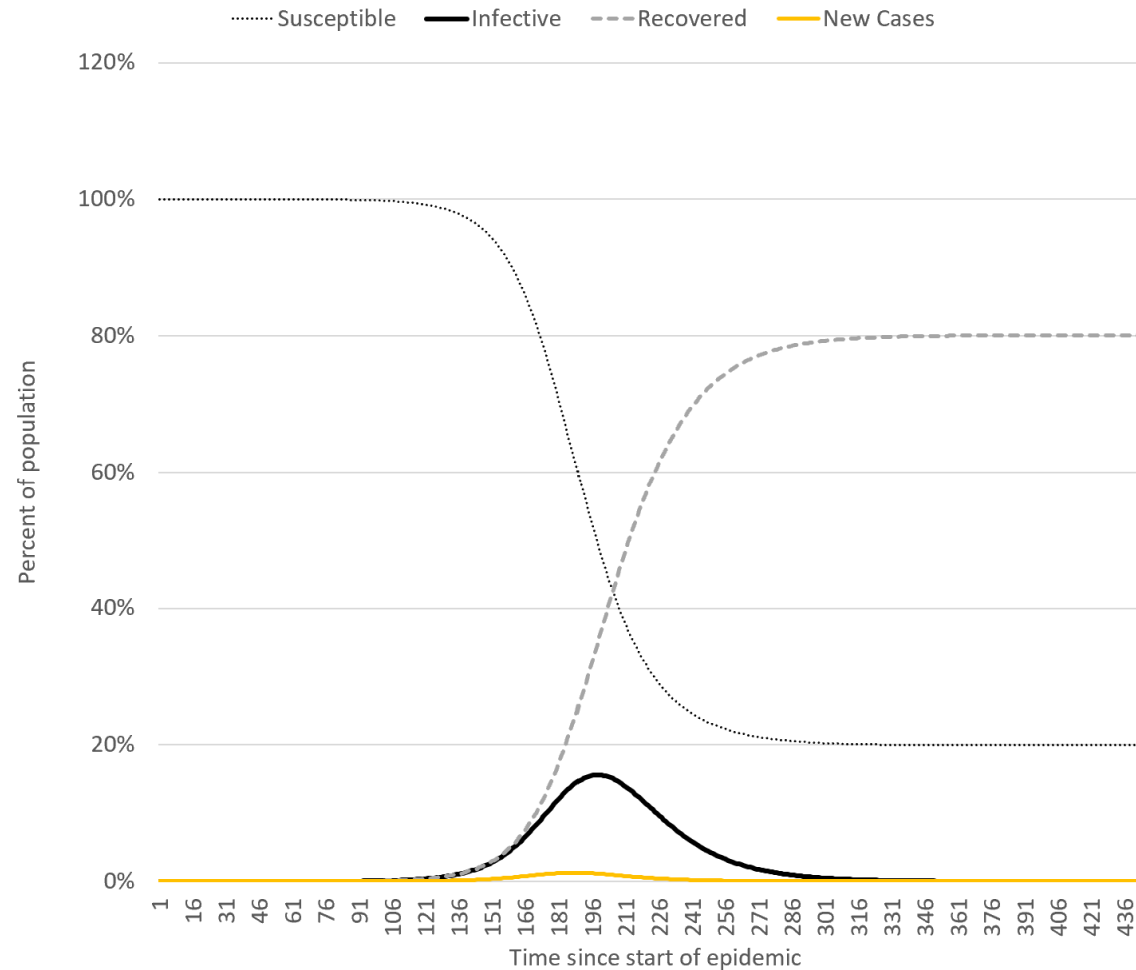
$$\frac{dS}{dt} = -cSI$$

$$\frac{dI}{dt} = cSI - rI$$

$$\frac{dR}{dt} = rI$$

Figure 2: Time Paths of S, I, and R in Kermack-McKendrick Model

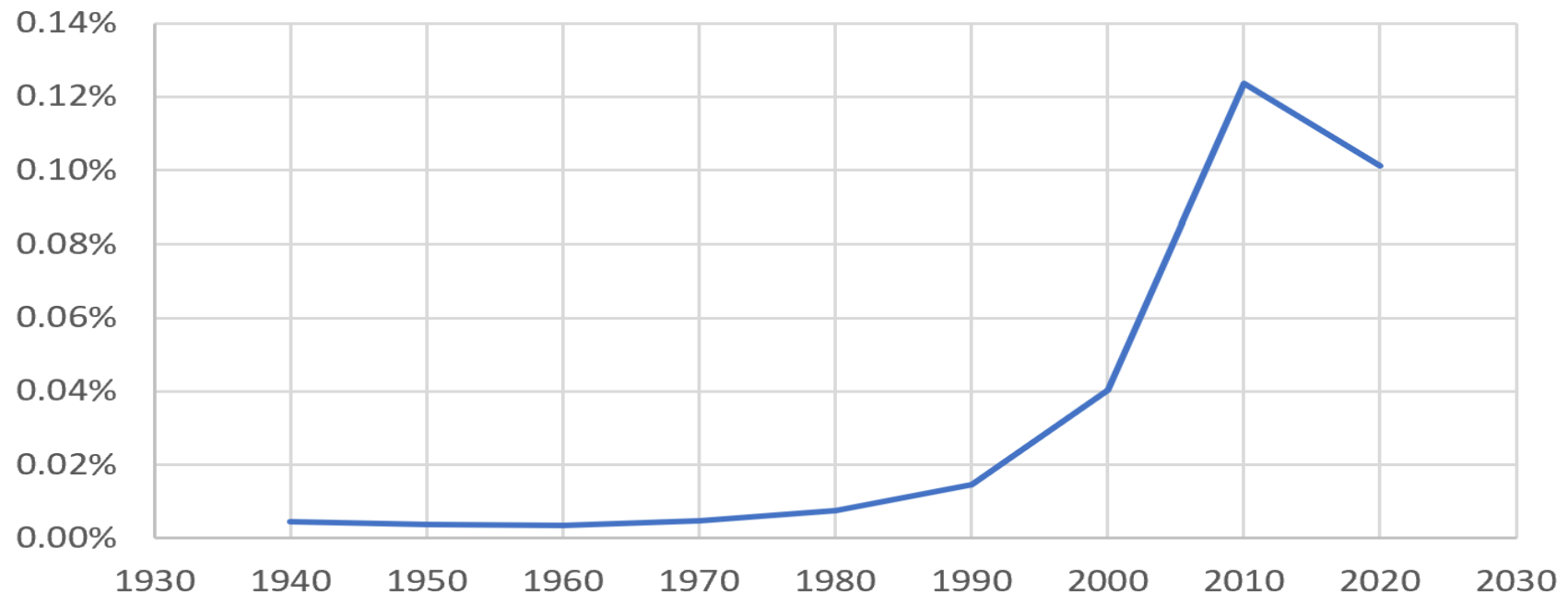
$I(0)=.0001\%$, $c=0.28$, $r=0.14$



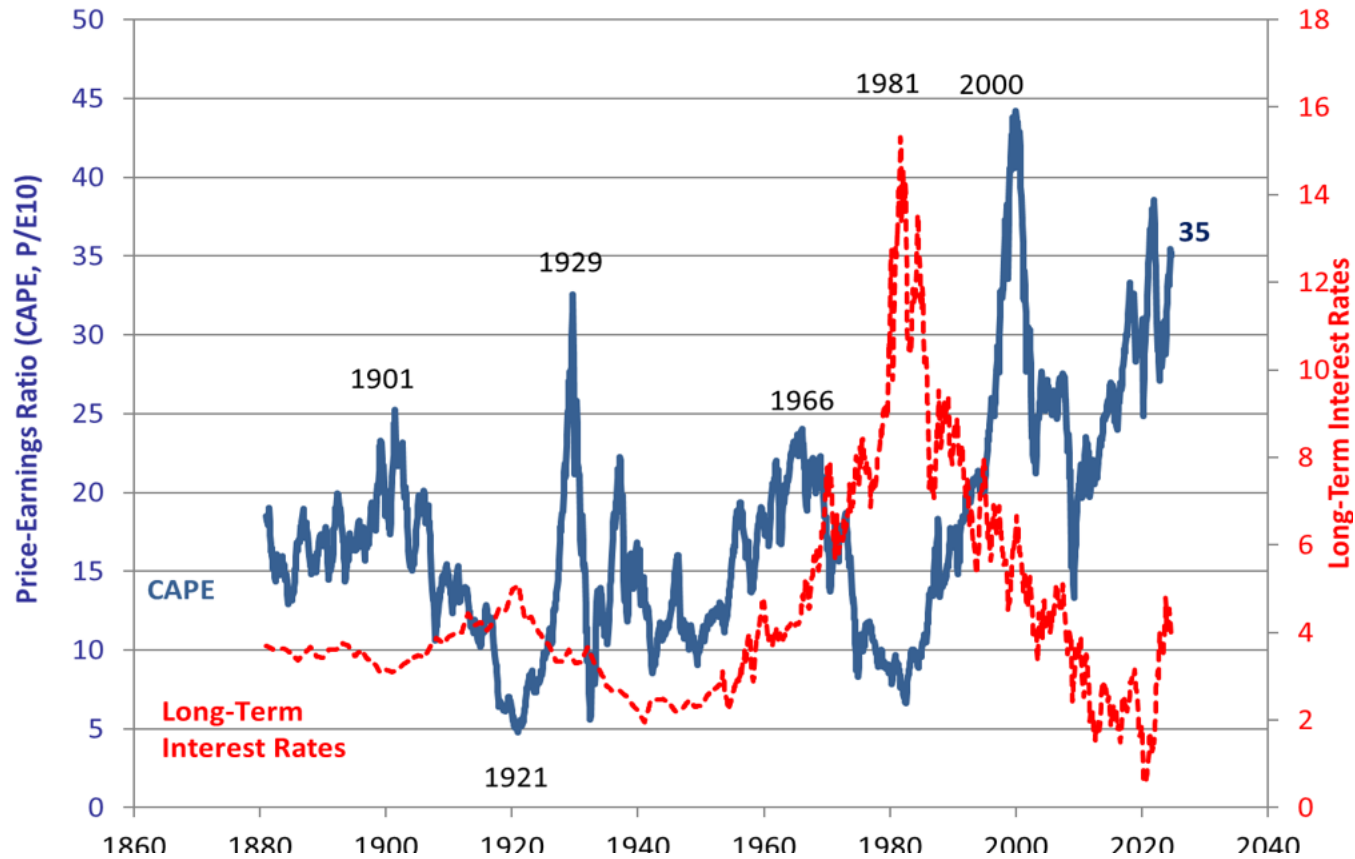
What is the Definition of A Narrative?

- Definition for late 20th and 21st century: A narrative is a telling of a story that imbues it with meaning and significance, generally attaching human interest and punchlines that dramatize some events and illustrate some point about the world we live in

Percent of Proquest News & Newspapers Articles with Narratives AND (Justify OR Encourage)

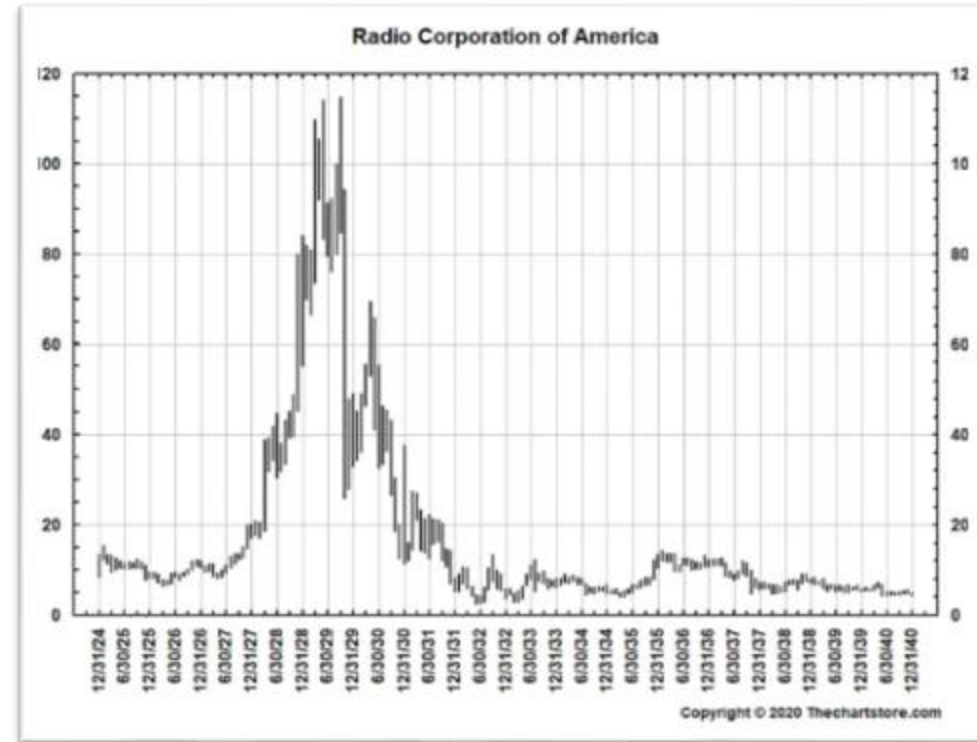


CAPE Ratio and Long Term Interest Rate



Economic Narratives of the 1920s when CAPE was Soaring

- Radio and RCA and David Sarnoff
- Mass Production, Henry Ford
- rocket ships, travel to the moon and Jules Verne
- President Coolidge gives his inaugural address to nation by radio 1925, first ever, estimated 25 million audience



Google Books Ngram Viewer

Henry Ford, mass production

1800 - 2022

English

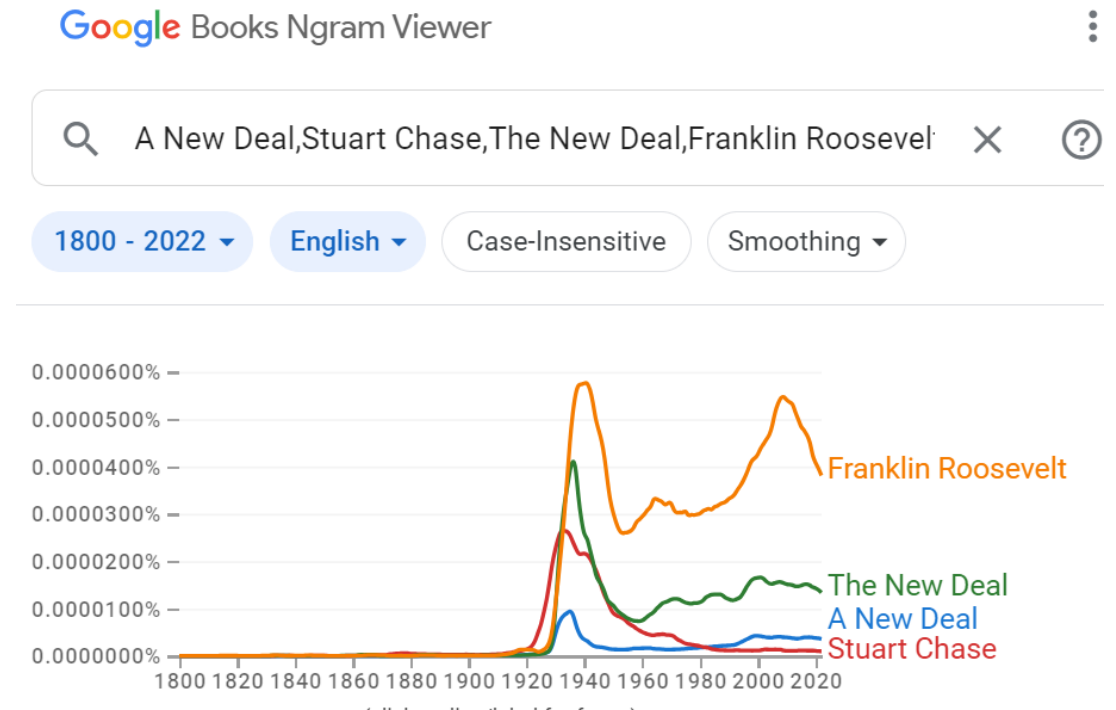
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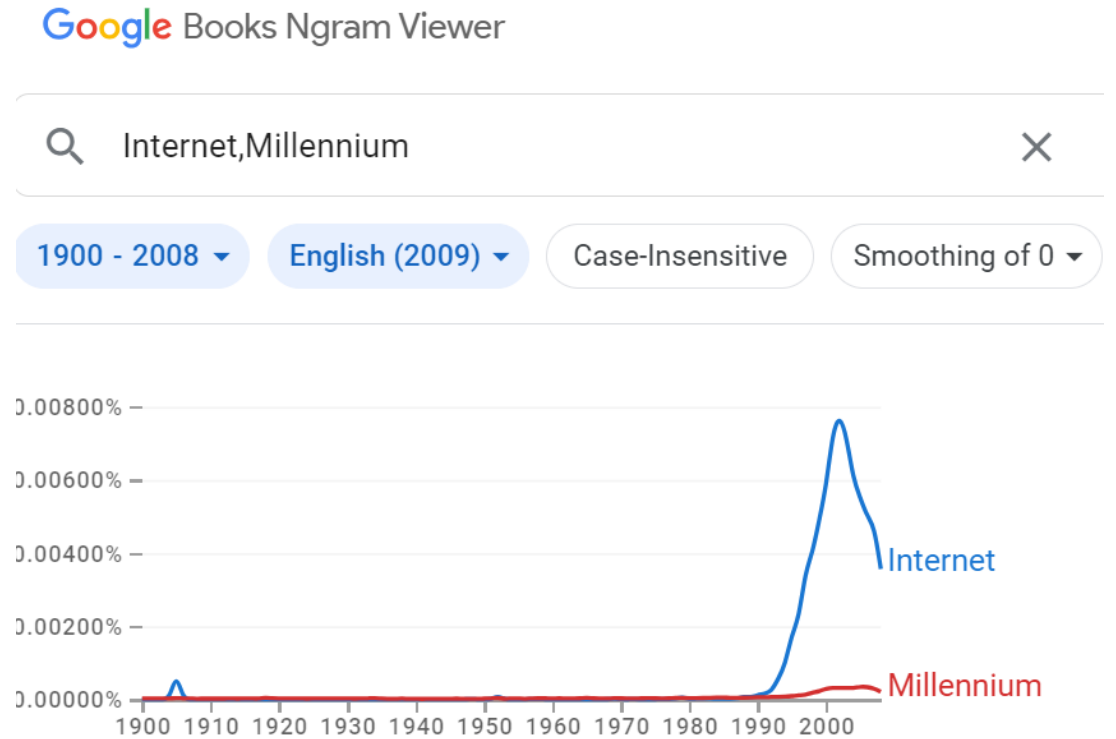
Economic Narratives after 1932 when the CAPE ratio was Rising

- Stuart Chase's 1932 book *A New Deal* came just before Roosevelt's successful campaign for U.S. Presidency, offering "The New Deal"



Economic Narratives of the 1990s when CAPE Was Soaring, to Its Highest Level Ever in 2000

- New millennium
- Internet and its celebrities
-



Economic Narratives after 2007-9 financial crisis Leading to Today, 2024

- Conspiracy theories the coming presidential election
- Autocrats, strongmen and Vladimir Putin
- Loss of trust
- Outright lies

