



Relationship between Liquidity and Price Bubble in Tehran's Asset Market

J. Khodaparast SHIRAZI*

Islamic Azad University of Shiraz
Department of Economics
Shiraz, IRAN

jkshirazi@yahoo.com

M. Reza GHASEMI

Islamic Azad University of Shiraz
Department of Economics
Shiraz, IRAN

mr_ghasemy@yahoo.co.uk

A. Rahman SETAYSH

Islamic Azad University of Shiraz
Department of Economics
Shiraz, IRAN

rsetayesh@yahoo.com

Abstract

In this paper, according to Austrian school, the existence of bubbles in asset market of Tehran from 1998 to 2009 is attributed to the unexpected fluctuations of liquidity. To find out the process of bubble, the state space form and Kalman filter are used and bubble is brought out as unobserved variable of price series. In order to determine the long run relationship between liquidity and price bubble the VAR method proposed by Johanson and Jelibus is used. The result confirms that variation of liquidity has a significant effect on the creating of bubble in long run.

Keywords: Price bubble; Austrian school

* Corresponding Author