

Abstract

This paper examines whether tasking central banks with leaning against asset booms can conflict with their goals of stabilizing prices and output. The paper embeds the Harrison and Kreps (1978) model of speculative booms in a monetary model based on Rocheteau, Weill, and Wong (2018). I show that a disagreement shock which leads to an asset boom is associated with higher output but a lower price level, in contrast to the aggregate demand shocks central banks aim to offset. This result can help explain why many asset booms have been associated with low inflation. The central bank in the model faces a trilemma in that it cannot use contemporaneous monetary policy to simultaneously stabilize output, the price level, and real asset prices in the face of a speculative asset boom.