Title: Asset Bubbles, R&D, and Economic Growth

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Abstract: Can asset bubbles promote innovation and growth? We study this question in an R&D-based growth model with heterogeneous, financially constrained entrepreneurs. Bubbles serve as collateral, relax borrowing constraints, and improve the allocation of R&D resources. With constant returns to knowledge, both equity and pure bubbles raise long-run growth, with equity bubbles having a larger effect. With diminishing returns, bubbles leave long-run growth unchanged but generate persistent level and transition effects. We also show that collateral-induced liquidity premia can sustain bubbles in dividend-paying assets along a balanced-growth path.