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## Media Release

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### No 'Irrational Exuberance' – but perhaps 'Irrational Apathy'? ...

The March issue of the *Melbourne Institute Monthly Bulletin of Economic Trends* presents the Macroeconomics team's quarterly forecasts of the Australian economy. This issue is devoted to an assessment of the economic implications of the catastrophe in Japan coupled with high oil prices.

According to Professor Guay Lim, "We see three potentially important implications - the effects on confidence, inflation and interest rates.

First, political turmoil and natural disasters are not typical confidence boosters suggesting that consumer confidence and consumption may not rebound strongly in the near future.

Second, the problems at the Fukushima power plant together with the political turmoil in the Middle East would put upward pressure on oil prices, which in turn would put upward pressure on the cost of production and hence upward pressure on domestic prices.

Third, interest rates could rise, as the Japanese government may have no choice but to liquidate their foreign bond holdings to finance the reconstruction of the devastated areas."

She added, "there is also a distinct absence of 'irrational exuberance' in financial markets (a term coined by Alan Greenspan to describe the herd-mentality driving markets up) but there is a potential for 'irrational apathy' (the herd-mentality driving markets down)."

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