Is the Stock Market Overvalued?

Abstract

The value of U.S. corporate equities in the first half of 2000 was close to 1.8 times U.S. gross national income. Some stock market analysts have argued that the market is overvalued at this level. We use standard economic theory and find that the market is correctly valued. In theory, the market value of equity plus debt liabilities should equal the value of productive assets plus debt assets. Since the net value of debt is currently low, the market value of equity should be approximately equal to the market value of productive assets. We find that the market value of productive assets is roughly 1.8 GNPs and is therefore in line with the market value of equity.

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