# Inefficient Investment Waves

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Abstract

We develop a dynamic model of trading and investment with limited aggregate resources to study investment cycles. Unverifiable idiosyncratic investment opportunities imply market prices to play a role of rent distribution, distorting private investment incentives from a social point of view. This distortion is price-dependent, leading to two-sided inefficient investment cycles---too much investment in booms with high prices and too little in recessions with low prices. Interventions targeting only the underinvestment in recessions might make all agents worse off. We connect our results to both industry specific and aggregate boom-and-bust patterns.