1105-91-49 **Po-Keng Cheng*** (ansd39@gmail.com), Mathematics Tower B-148, Stony Brook, NY 11794, and **Frank J. Fabozzi** and **Young Shin Kim**. *Speculative bubbles and Crashes: Fundamentalists and Positive-Feedback Trading.*

In this paper, we develop and examine a simple heterogeneous agent model, where the distribution of returns generated from the model takes into account two stylized facts about financial markets: fat tails and volatility clustering. Our results indicate that the relative risk tolerance between fundamentalists and positive-feedback traders determines the path of price fluctuations. Fundamentalists are more able to dominate the market when they are more willing to take risk. In our model, fundamentalists most likely cause heavy-tailedness, and positive-feedback traders cause the formation of speculative bubbles. Moreover, the attitudes toward risk of traders vary across time and the generally low level of risk bearing by fundamentalists could explain the frequent occurrence of bubbles. (Received September 12, 2014)