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By Ben Leubsdorf

Can government officials pop an asset bubble by warning one is forming? New research from the Federal Reserve Bank of Dallas suggests a lot depends on timing and credibility.

"We found that if a warning is issued in a definite range of periods around the starting period of the bubble, the bubble bursts with it," wrote two economists, Yasushi Asako and Kozo Ueda of Waseda University in Tokyo, in a new working paper ("The Boy Who Cried Bubble: Public Warnings against Riding Bubbles") released by the Dallas Fed.

But if investors aren't sure the warning is timed properly, "then it cannot stop the bubble immediately," they warned. "While the bubble duration can be shortened by a premature public warning, it can be lengthened if it is accidentally late."

Bursting financial bubbles can cause deep economic damage, as demonstrated by the 2007 U.S. housing crash that sparked a financial crisis and deep recession. But, wrote Mr. Asako and Mr. Ueda ,a former Bank of Japan researcher, the public doesn't always heed warnings about bubbles, such as then-Fed Chairman Alan Greenspan's 1996 warning about "irrational exuberance" in the stock market.

In their paper, the two economists propose a model by which a bubble can be burst if the public is warned one is forming, eliminating the ability of investors who detect it early to "ride" the bubble for their own benefit.

If a warning comes as the bubble is forming, it will burst immediately, they wrote, and can even burst a little early because investors may want to sell. But in the "more realistic" situation when a warning is issued, but investors don't know if it's coming too early or too late, the effect is less immediate, they wrote.

Credibility matters, they wrote, and governments "need to lower the probability of spurious warnings. In other words, governments must not be like the boy who cried wolf."

Of course, it's not always easy to tell when a bubble is forming. Two additional working papers from the Dallas Fed try out a new method for detecting bubbles known as the generalized sup ADF test, proposed by Peter Phillips of Yale University, Shu-Ping Shi of the Australian National University and Jun Yu of the Singapore Management University.

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In the first paper, four researchers from Columbia's central bank, the Banco de la República, conclude their country "may be experiencing a housing-price bubble."

In the other, researchers apply the test to the last 15 years and housing markets in the United States, the United Kingdom and Spain.

"Our evidence suggests that even controlling for fundamental behavior, there is strong evidence that explosive behavior appeared in all three countries during the first half of the 2000s. This evidence contrasts with existing work that employs other more conventional methods of bubble-detection which produce less clear readings," they concluded.