

Bubble and Depression: An Historical Parallel?

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What are Bubbles?

- “that part of asset price movement that is unexplainable based on fundamentals.”
- “any unsound undertaking accompanied by a high degree of speculation.”
- “an upward price movement over an extended range that then implodes.”

Historical Bubbles

- Dutch Tulipmania: 1634-37
- John Law System: 1718-1720 Compagnie d'Occident and the "Mississippi Bubble".
- South Sea Bubble: 1717-1720
- Black Thursday: 1927-1929. October 24, 1929. The Great Depression followed.
- Black Monday: 1987. Computer Trading blamed.

"The Bubble"

While some build Castles in the Air,
Directors build them in the Seas;
Subscribers plainly see them there,
For Fools will see as Wise Men please.

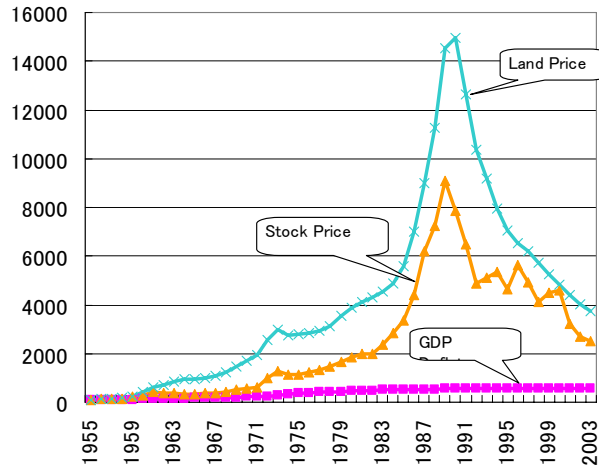
Thus by Directors we are told,
Pray Gentlemen believe your Eyes;
Our Oceans cover'd o'er with Gold,
Look round about how thick it lies.

Excerpts from Jonathan Swift,
"The Bubble," 1720

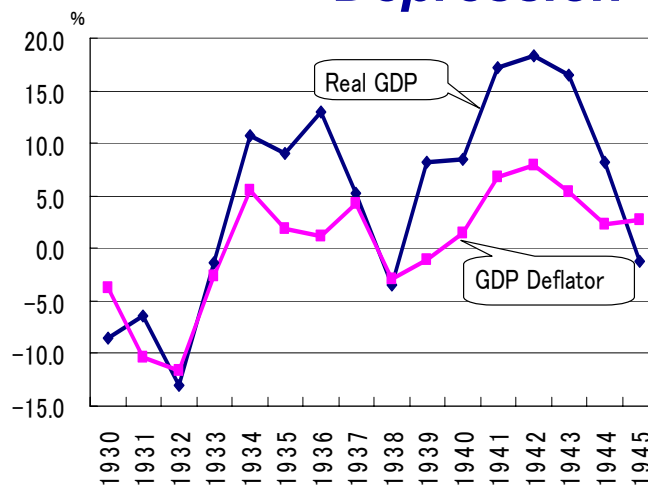
Oh! would these Patriots be so kind,
Here in the Deep to wash their Hands;
Then like Pactotus [?], we should find,
The Sea indeed had Golden Sands.

The Nation too too late will find,
Computing all their Cost and Trouble,
Directors Promises but Wind,
South Sea at best a mighty Bubble.

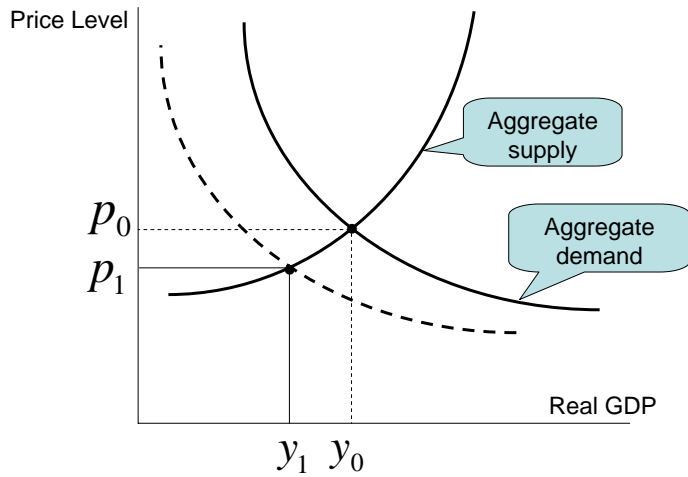
Asset Price Bubble of Late 80s



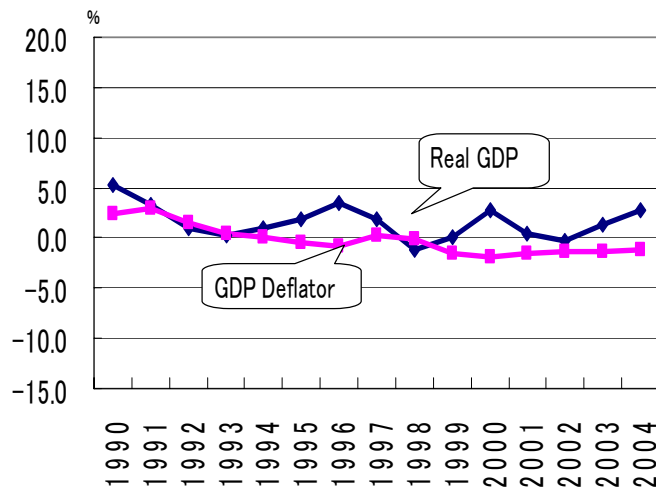
America in the Great Depression



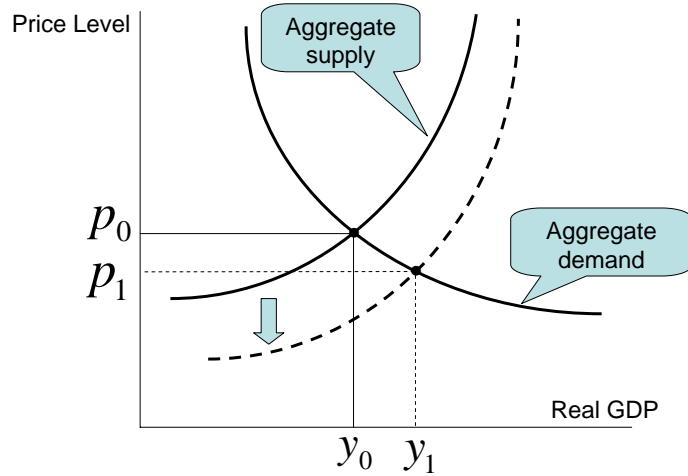
Demand-Pull Deflation



Japanese Economy after the Bubble



Increased Competition and Price Decline



Land Price-GDP Ratio

