

# Bubbles

Speculative bubbles that cause mayhem in markets are not new — here are some examples

## 1 Tulip mania

Tulips were introduced into Europe in the mid-sixteenth century from Turkey, and soon became a craze in Holland. This reached its height in 1633–37, when there was intense speculation in the tulip market. Some single tulip bulbs sold for more than ten times the annual income of a skilled crafts worker. The market collapsed dramatically in February 1637.

## 2 The South Sea Bubble

The South Sea Company was set up to manage government debt and promote overseas trade. Debt-for-equity swaps and noise traders caused share prices to soar until the bubble burst in 1720. See Helen Paul's article on pp. 2–5 for the full story.

## 3 Railway mania

When the railways expanded in Britain in the 1840s, railway companies became overly optimistic about the future of this mode of transport, and overstepped their plans for new routes. The prices of shares in railway companies shot up, but many of the railways planned were never built, and the mania petered out.

## 4 The Wall Street Crash

The US stock market boomed during the 1920s, fostering wild speculation. With industrial output declining and unemployment rising, stock values were greatly above their real value. When stock prices began to decline in September and early October 1929, panic set in, and the market collapsed.

## 5 The dot-com crash

The 1990s brought large numbers of companies operating on the internet. Enthusiasm about this new way of doing business pushed stock valuations to reach heights that could not possibly be sustained. The bubble burst in 2000–02.

## 6 Financial crisis, 2008–09

During the 2000s, financial institutions devised new ways of generating new loans, by using wholesale funds and a process of securitisation. This created a credit bubble, and once a few financial institutions such as Northern Rock in the UK and Lehman Brothers in the USA failed, the dangers of a failing financial system became apparent, and central banks had to step in to stem the crisis.

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