

The Dutch Tulipmania

by Margherita Briza Aprile 1 liceo Classico

Tulipmania is the first example of a speculative bubble in history, occurred during the Dutch Golden Age. A speculative bubble is a phase of the market in which the price of a given good is raised exponentially without a rational explanation. At the bubble's height a bulb could cost as much as a house on the Amsterdam Grand Canal. The bubble crashed in 1637, leaving in the minds of many doubts on the irrationality of crowds.

Tulipmania was a frenzy: everyone from the low-wage workers to the prestigious merchants was influenced. The Dutch began growing an obsession with tulips after they were first brought from Constantinople in 1559. The bubble was triggered by general behavioral mistakes committed by crowds who hadn't conducted any investment analysis but instead were dragged by the euphoric madness of these exotic goods, generating a herding. The mania rapidly increased when individuals suddenly gained wealth: buying bulbs stood as a social bait for increasing personal profit. Behavioral finance had a key role in Tulipmania. As soon as investors saw their rational expectations lose track and felt at the same time the psychological pressure on the crowds increased due to the greed of the people to access the bulbs; a cycle of positive feedback was generated and inflated prices more. The interest in tulips was maniacal and was purely caused by human impulses making enthusiasm the priority rather than actual value estimation. Citing Charles Mackay the Dutch Tulip Mania the rage amongst the Dutch to possess the bulbs was so vast as to cause a neglecting of the country's regular commerce.

Traders were aiming at quick profits, thus explaining their constant motions inside and outside of stocks. Speculative trade comes with a great deal of risks, the impulsive investments on a certain good that has been presenting a rapid increase in demand can most likely lead to unskilled investors seeing their capital increase and then squander their profit in futile investments. The economical conditions during Tulipmania made it possible for everyone to become wealthier by simply owning an exotic bulb, many of the less wealthy bought bulbs on credit hoping to pay off their debts by reselling the goods. Others bought bulbs with contracts deriving their value from an external entity to buy more bulbs than they could actually afford. This is the main reason for Tulipmania's end, when prices started declining many had to resell their bulbs at inconvenient prices resulting in going bankrupt. Prices had gone back to being regular by the end of 1637 and in 1638 many of those who had hoped to improve their lives and live in wealth saw their aspirations crash by owning bulbs that no one would want to buy.

Tulipmania can be compared to a video going viral, suddenly everyone is interested without contemplating its origin and reason. The influence the bulbs had on the Dutch clearly shows the value of materialism in society and the hunger for social redemption and mobility for the less wealthy, interested in tulips to make their lives better.

BIBLIOGRAPHY

SEIML, Article 4, Behavioral Finance

https://seiml.com/education_series/article-4-behavioral-finance/

Memoirs of Extraordinary Popular Delusions and the Madness of Crowds, Charles Mackay

<https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwjSvfTA-fztAhVLCuwKHboaDtoQFjAEegQIAhAC&url=https%3A%2F%2Fwww.econlib.org%2Flibrary%2FMackay%2FmacEx.html&usg=AOvVaw0-8mNEUDGMMFLanTHkrXTX>

MSG, Tulipmania of the 17th century

<https://www.google.it/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwjSg5fN-fztAhWSwAIHHaaTDnMQFjABegQIARAC&url=https%3A%2F%2Fwww.managementstudyguide.com%2Ftulip-mania-of-17th-century.htm&usg=AOvVaw27UT0G6FCIJnc-xdtaSGCg>

Economic history, "Was Tulipmania irrational?"

<https://www.google.it/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwicjN3Y-fztAhXQzKQKHVRBCSkQFjABegQICRAC&url=https%3A%2F%2Fwww.economist.com%2Ffree-exchange%2F2013%2F10%2F04%2Fwas-tulipmania-irrational&usg=AOvVaw0MmctnfssNz5cWe4vCBYig>

Tulipmania

<https://www.google.it/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwilgtXI-fztAhVSNwKHTW8BcQQFjAAegQIAhAC&url=https%3A%2F%2Fwww.investopedia.com%2Fterms%2Ftulipmania.asp&usg=AOvVaw3sBnZSTVCFIhoZlUUFkTjS>

Tulipmania, University of Chicago Press

https://www.google.it/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwjCwb3w-fztAhXRCOWKHQyQA0QQFjABegQIARAC&url=https%3A%2F%2Fpress.uchicago.edu%2FMisc%2FChicago%2F301259.html&usg=AOvVaw0wmt9v_ERFy nRjWMx6cPGW