**Tulip Bubble Script**

Hi everyone. Today’s topic is tulip bulbs. Or, to be more precise, tulip bubbles, the tulip bulb mania. I want to try and explain to you today how the first real economic bubble happened.

Right, tulip bulbs. I’m sure you all know what a tulip is. A tulip is a beautiful flower. Tulips come from a bulb. Well, actually they come from a seed, but it takes seven years for the seed to turn into a flower. So, once the seed has become a flower, it produces a bulb at the bottom of it, which is this shape, we call them lightbulbs because they look like tulip bulbs, is this shape and once you have a bulb, you can produce a plant every year. You can produce a flower every year. So, tulips are always sold as a bulb. Because if you buy the seeds, you have to wait seven years for the flower. Now, tulip bulbs, you can buy them anywhere. You can buy them on Amazon. Right now they cost about a dollar each. It depends on the type of tulip, but about a dollar each. We’re going to talk about when tulips were first introduced into Europe. Tulips are not native to Europe. You probably know that most of the world’s tulips right now come from the Netherlands. But tulips are not native to the Netherlands. Tulips actually come from the Middle East, Turkey area. In 1524, a man called Ogier de Busbecq, I’m not sure if that’s the right pronunciation, he brought tulips from the Ottoman Empire to Europe. Now, these tulips, they took quite well to the climate in Europe. And they started to grow very well, very easily. Before that, Europe didn’t have that many colorful flowers, so tulips became extremely popular. There are four basic types of tulip. You’ve got single hue tulips, that’s one color so you have your red tulip or your yellow tulip. You have white streaks on red or pink. That means you have a red or a pink tulip flower with white stripes all over it … streaks all over it. Then you can have white streaks on a purple or lilac flower. And then you get mixed colors. The single hue tulips are the most common, therefore they are the cheapest. The mixed colors, those are the rarest, therefore they are the most expensive. The mixed color tulips are actually caused by a virus. Inside the bulb two tulips develop and they join together, so you’ll have a red and a yellow tulip that are mixed. Those are the rarest tulips. Ok. Tulips bloom from for about one week of a year, usually April or May. And between June and September, tulips can be moved around. That information is going to become important later. You’ll find out why.

Ok. That’s the background finished. So, a tulip bubble. What actually happened? Well, in 1636, November the 12th, to be exact, the price of tulip bulbs began to rise. Why does that happen? Well, it’s pretty simple really. The farmer grows the tulip, the farmer grows the tulip and he sells the tulip, let’s say for a dollar. “Oh, that’s a beautiful tulip. Thank you. I’ll buy that for a dollar. There’s your dollar.” Someone that buys the tulip, they then turn round and they sell it on. “I’ve got a beautiful tulip here. It’s two dollars. Do you want to buy it?” “Oh, yes! That’s a very nice tulip. Thank you. I’ll buy it for two dollars.” And the price goes up. This is pretty simple. This happens with almost anything. However, sometimes, people can get carried away. “What? You just bought a tulip bulb for a dollar and now you’re selling it for two dollars? The price has doubled! I’ll buy one of those!” “Ok. The price is now four dollars.” “Oh, thank you. I’ll buy it for four dollars.” The price goes up. Someone else hears that. “What? The price of the tulip bulb has gone up from one dollar to four dollars in the space of a day? I’ll have one of those!” “Ok. Now it’s eight dollars.” And the price slowly goes up and up and up. Now, with a bubble, what happens with a bubble is the price keeps rising, and it rises almost exponentially, that means it doubles and doubles and doubles and doubles and doubles. At one point, in early 1637 … hang on, I have a list here. This is what somebody swapped for a tulip bulb. You ready? All of this together was swapped for one tulip bulb. 3,500kg of wheat, 7,000kg of barley, 4 cows, 8 pigs, 12 sheep, 600L (liter) of wine, 8,000L of beer, 500kg of cheese, 2,000kg of butter, 1 bed, 1 suit of clothes and 1 silver cup. All of that together was traded for one single tulip bulb. So, this … er … illustrates how high the price was going. Now, with a bubble, as the price keeps going up and up and up, people get carried away and they want to get in on this, they want to make some money. And because more people are coming in the price keeps going up. The price becomes artificially high. This is the start of a bubble. Now, when the price is going up and up and up and up and up, at some point it must stop. And that is when the bubble bursts.

However, before that, lets cover a couple of things that happened during the tulip bubble. One of them is the invention of … maybe not invention … the introducion … the introduction of something called futures. Now, remember I said tulips can only be transferred between June and September? That means, if you want to buy tulips, say in January, you cannot actually have the tulip until June or September. So, what do we do? We have something called futures. The person says to the farmer, “ok, I want to buy one of your tulip bulbs. But, I cannot buy it now, so I promise that in September I will give you ten dollars for one bulb.” The farmer says, “ok.” The person writes on his piece of paper, “September, one tulip bulb, ten dollars”. He gives it to the farmer. That means, if the price of tulip bulbs goes up, which this person hopes, when they buy the tulip bulbs in September, they still only have to buy them for ten dollars, but hopefully the price will be, let’s say, a hundred dollars. If that happens, they make lots of money. However, of course, the opposite can also happen. The price could fall. If the price falls to five dollars, this person still has to buy the tulip bulb for ten dollars. Ok. That’s a future. But, now, you can also trade in futures. So, this piece of paper that says I can buy one tulip bulb for ten dollars in September, I can now sell. If somebody thinks the price of tulip bulbs is going to go up to a hundred dollars, they are going to pay a lot of money for this. So, let’s say I sell this future to someone else for fifty dollars. They, now, in September, can buy that tulip bulb for ten dollars. If the price is a hundred, a hundred minus ten minus fifty, is sixty, which means they get forty dollars profit. I on the other hand, I have just made fifty dollars for doing nothing. Now, if the price of tulips keeps going up and up and up, the person that just bought this for fifty dollars, can sell it for a hundred dollars, for two hundred dollars, for five hundred dollars, for a thousand dollars, even. And if I buy this piece of paper for a thousand dollars and I can buy a tulip bulb for ten dollars, I’m going to make a lot of money. Unless, the price of tulip bulbs has crashed. If that happens, I’m going to lose a lot of money. Which, of course, is what did happen.

Now, the second thing, and this is where a lot of people lost a lot of money. Let’s say I have a thousand dollars in the bank. I want to buy tulip bulbs. Tulip bulbs are trading at one hundred dollars each. I buy ten tulip bulbs. I now have zero money in the bank and I have ten tulip bulbs. If the price goes up, I sell them, I make money. If the price goes down, or crashes, I cannot sell them, I’ve lost a thousand dollars. What happens to me? I’ve lost all my money. Hmm. Which is sad, but you can live with that. However, let’s say the price of tulip bulbs is going up and up and up and up and up, and I want to buy some, I want to get in on this action, but I don’t have any money. I go to the bank and I say to the bank, “Hi. Can I borrow a thousand dollars, please?” And the banks say, “Sure you can. Here you are. Please sign this piece of paper. If you cannot pay us back, we’ll take your house.” “Ok.” And I know the price of tulips is going up and up and up, so, I’m going to accept that of course. I borrow the thousand dollars, I buy my tulips. “Yeah!” I’ve suddenly got ten tulips. The price of tulips crashes. “Oh no!” I’ve got ten tulips. I cannot sell them. I cannot pay the back … bank back my thousand dollars. They take my house. Ok. So, the second thing is borrowing to invest.

Now, the price of tulips keeps going up and up and up and up and up for about half a year. Then, suddenly, February the 3rd, 1637, one morning, in one shop, in Amsterdam, buyers don’t show up. The people who are going to sell the tulips are there, but nobody comes in to buy them. There are many reasons why this could have happened. Er … the bubonic plague was actually big in the area at the moment, people maybe have … may have been scared to come. Erm … maybe it was a rainy morning. There are many reasons why people didn’t come. But, the reasons are not important. The fact is, people didn’t come to buy these tulip bulbs. Now, what happens? The price of tulips is going up and up and up and up, it has to keep going up. If there is any doubt, if there is any uncertainty in the system, the whole system will come crashing down. Now, that one morning, those two or three hours when people didn’t show up to buy the tulip bulbs, that spread, across the tulip world. People are suddenly thinking, “People are not going to buy my tulip bulbs! I’ve spent ten thousand dollars on this tulip bulb! What if nobody buys it? I have to sell it! I have to sell it! I have to sell it now!” And people start panicking, and they start frantically trying to sell their tulip bulbs. But, my tulip bulb for ten thousand dollars, no one is going to buy it for that price, because they know, the price is now on a downwards spiral. They’re not going to pay ten thousand dollars for this because it’s not going to be worth ten thousand dollars the day after. So, I’m lucky if I can sell it for a thousand, or fifty, or even a hundred, or even one dollar. If I pay a thousand dollars for this and I can sell it for one dollar, I’ve lost nine hundred and ninety-nine dollars. The whole tulip industry collapses. And the prices come back down to where they should have been in the beginning. Because, with any bubble, the prices have been artificially increased. Now, bubbles will happen again. Bubbles happen very often. 2008, there was a housing market bubble, 1994, the Japanese bubble collapsed. This will always happen. People will see people making money and they will want to get in on that and that will push the price up.

Now, to finish. There are two pieces of advice I have for you, if you’re going to invest like this. The first one is, be very careful if you are borrowing to invest. If you invest your own money and you lose it, it’s sad, but you can survive. If you borrow money to invest and you lose it, you still have to pay back that money. And that can destroy a lifetime. The second thing is, if the price is going up and up and up and up and up, it will fall at some point. You have to be careful. With the tulip bubble, many people lost a lot of money. Many people lost their houses, all of their income, everything. However, some people made a lot of money. The very smart people, the very very smart people, can see the trend, they can see the bubble about to burst, and they sell there, just before it bursts. And then, when it bursts, they have made money. So, if you are careful, and if you can see the trajectory, if you can see when the bubble is about to burst, you can make a lot of money. But, be very careful.

Anyway, thanks for listening. This was fun. Don’t forget to subscribe. Talk to you later. Bye.

**Tulip Bubble Questions**

1. Why are tulips sold as bulbs?

A: Because they can give off light

B: Because it takes seven years for the seed to turn into a flower

C: Because it is easier to carry a bulb than lots of seeds

D: Because they only flower in April or May

2. Which type of tulip are the most expensive?

A: Single hue

B: White streaks on red or pink

C: White streaks on purple or violet

D: Mixed color

3. Steven says, “the price rises exponentially.” What does exponentially mean?

A: The price rises until the bubble bursts

B: The price goes up, but then come down

C: The price stays the same

D: The price keeps doubling

4. Which of these were not traded for a single tulip bulb?

A: 4 horses

B: 8,000L of beer

C: 3,500kg of wheat

D: a suit of clothes

5. What is a future?

A: It’s what comes after now.

B: A deal where you get tulip bulbs posted to your house in May.

C: A situation where you can choose the price you pay later.

D: A promise to buy something at a later date for a fixed price.

6. What’s the second thing that was introduced during the tulip bubble?

A: Borrowing to invest

B: Futures

C: Tulip farming

D: A housing bubble

7. What was the reason why buyers failed to show up at the shop in Amsterdam?

A: The bubonic plague

B: It was raining

C: They were scared

D: We don’t know

8. Which of these is true?

A: Some people made a lot of money in the tulip bubble.

B: Everybody lost their houses in the tulip bubble.

C: Nobody could ever make money in a bubble.

D: There will never be another bubble.

9. Which of these would Steven not agree with?

A: It is a bad idea to borrow money to invest.

B: If the price of something is going up, it will always go up.

C: In a bubble, the price of things has been artificially increased.

D: You can make money if you know when to sell.

10. Why does Steven mention the 1994 Japanese bubble and the 2008 housing bubble?

A: To show that bubbles don’t only happen in the Netherlands

B: To compare the price of houses with the price of flowers

C: To illustrate that bubbles happen very often

D: To explain why the tulip bubble happened

11. Explain, with examples, how futures work.

12. What was the event that caused the tulip bubble to burst and why?

13. Economic bubbles are caused by human greed. Do you agree or disagree? State your reasons.

14. Why does Steven say you shouldn’t borrow to invest?

15. Write about an economic problem in your country. Explain the problem and try to offer a solution.

**Tulip Bubble Answers**

1. B 2. D 3. D 4. A 5. D 6. A 7. D 8. A 9. B 10. C

11. Explain, with examples, how futures work.

A future is a promise to buy something in the future at a prearranged price, hence the name “future”. For example, wheat. Let’s say the price of wheat right now is $165 per ton. (It is. I just checked). I know that a hurricane is coming. A major storm would destroy wheat crops, pushing up the price of wheat. Supply and demand. That means the price will jump. I know all this. The person selling the wheat doesn’t. I agree to buy 2000 tons of wheat at $180 a ton in one week. The farmer thinks this is a good deal because it is higher than the current price, so he agrees. This is a future. I am confident that once the hurricane hits, the price of wheat will go over $250 a ton. If that happens I can buy the wheat for $180 a ton in a week and make a profit of $70 on every ton. That’s $140,000 profit. However, the hurricane fades away before it makes landfall. The weather is beautiful and the price of wheat drops to $100 a ton. I now have to buy 2,000 tons at $180 a ton, which means I lose $160,000. Futures are very risky. You can make a lot of money, but you can also lose a lot of money.

12. What was the event that caused the tulip bubble to burst and why?

The tulip bubble burst when nobody showed up to buy tulips on one rainy morning in Amsterdam. The sellers were waiting in the shop but no buyers came. A bubble needs absolute confidence for it to keep expanding. Once there is the slightest doubt that demand might have stopped, or that the price is artificially high, the whole tower of cards comes falling down. On that morning the buyers didn’t come, for probably unconnected reasons, and the fear spread around the world. The bubble burst.

13. Economic bubbles are caused by human greed. Do you agree or disagree? State your reasons.

I like to see the best in people, but I don’t think there is any way of disagreeing with this statement. A bubble happens because people see other people making money and want to make some themselves. If that is not greed, then I don’t know what is. Common sense goes out of the window and people become driven purely by emotion. You could argue that something is worth what somebody is willing to pay for it, but, logically, anybody should be able to see that the prices have been forced up unnaturally. It is only the desperation to make more money that keeps the prices going up and, once the market finally sees sense, the prices crash back to earth.

Greed is not the only factor, though. I think that the human trait of constantly comparing ourselves to others is also partly to blame. If we see that our friend has a new car, we want one. If we see that our friend has a new house, we want one. When we see something someone else has, we compare ourselves, and, if we feel that the thing we possess is inferior, we feel that our lives are lacking. This is where jealousy comes from. When we see our friend has made money by buying tulip bulbs, we want to.

14. Why does Steven say you shouldn’t borrow to invest?

He is suggesting that borrowing to invest can be inherently dangerous. If you invest with your savings and the market crashes, you can lose no more than you put in. If the market crashes and you have invested with borrowed money, you have nothing and you must still pay back the loan.

15. Write about an economic problem in your country. Explain the problem and try to offer a solution.

A serious economic problem in Japan right now is the level of debt. Japan’s sovereign debt has reached 260% of its GDP which is the highest in the world. There are many reasons for this, some of which are a low birthrate, aging population and inability to retire the manufacturing sector. There are three possible solutions that I can think of. I would like to discuss each one and suggest why it will not happen.

The first possible solution is to raise the rate of tax. Three years ago, Prime Minister Abe raised the level of consumption tax from 5% to 8%. This brought a large amount of money into the government’s coffers but it was far from enough. To reduce the vast debt, Mr. Abe would need to raise the tax to 60%. This is a solution that will never happen. When the tax was raised in 2014, people stopped spending money and growth in the country fell. Inflation fell to almost zero. With regular inflation the debt would gradually shrink, with no inflation the debt gets higher. To raise the tax to the necessary rate would destroy the economy as we know it.

The second unviable solution is immigration. Japan’s shrinking and aging population cause problems at both ends of the spectrum. Mainly, there are too many people taking pensions out of the country, and not enough people paying tax in. The only way to cover the shortfall is to borrow. However, allowing immigration would introduce a young workforce who would have children and pay tax; a solution to all problems. Unfortunately, this will not happen because the Japanese fear immigration will lead to crime and a watering down of Japanese culture. Is that likely? Possibly. Is it better than the alternative? That is not for me to decide.

The third solution would be to turn from the manufacturing sector. Japan has long framed itself as a manufacturing country. In fact, it was manufacturing that pulled Japan up after its defeat in the Second World War. However, now it is manufacturing that is holding Japan back. Japan cannot compete with countries such as China and Vietnam, so the manufacturing industry has to be subsidized. Also, Mr. Abe has intentionally pushed the value of the yen down in the hope of making Japanese manufacturing more competitive abroad. This has only succeeded in making imports of food and fuel more expensive for the common person. Reforming this sector would bring growth to Japan which would raise wages, bring inflation and slowly help ease the debt situation. It won’t happen because Mr. Abe and his party receive a lot of backing from the manufacturing industry and they make a lot of money from the manufacturing industry.

There are many solutions to this problem. None of them are attractive. Mr. Abe has said he will reform. He hasn’t yet, but I live in hope.