Was a tulip worth a house?

Haarlem, Holland, 1637: tulip mania. Use value against resale price, the chain of buyers and the last one's loss, why demand moves, the legend against the records, the pattern of a bubble, checklist sign 1.

1 Two values

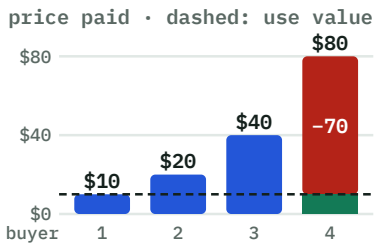
use · resale

- **Use value** = what a thing is worth for what it does · Coralia (toy island): a bulb → one flower a year → **$10** to a gardener
- **Resale price** = what a buyer hopes the next buyer will pay
- Buyer 1 pays $10 for a bulb she will never plant → pays for the **resale price** · **Bubble** = a price paid for the chance to resell, not for what the thing does → lasts only while new buyers keep arriving

2 The chain

who wins · who loses

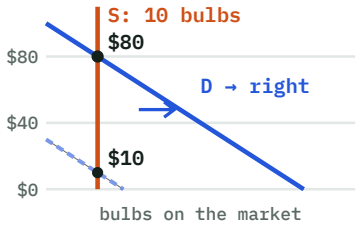
- Each buyer pays double: `$10 → $20 → $40 → $80` · nobody pays $160 → buyer 4 holds $10 of value → **loss 80 − 10 = $70**
- Gains `+10 +20 +40 − 70 = 0` ⇒ **zero-sum** (one side's gains = the other's losses): nothing new is made, money only moves along the chain
- **Greater fool** = next buyer who pays more only hoping someone pays even more · nobody stupid: none knew who would be last
- Practice: bulb $6 → 12 → 24 → **48** (8 × use value) → loss 48 − 6 = **$42** · sneakers $100 → 200 → 300 → 500, use value $100 → `+100 +100 +200 − 400 = 0`



3 Which curve?

supply & demand

- Supply and demand: Microeconomics, Lesson 2 · bulbs take years to grow → **supply fixed** at 10 bulbs (vertical line **S**) · **D** = demand: what buyers will pay
- Price rises `$10 → $80` ⇐ **demand moves right** ⇐ buyers **expect to resell higher** · the bulb and the flower do not change
- Price rises because buyers expect it to rise



4 The test

use or resale?

- Ask: **would the buyer still buy if it could never be resold?** yes → use · no → resale · a high or rising price alone says nothing

For use	For resale
painter paints the flower · family house to live in · bike to school · café oven · stamp kept forever	bulb at $80 "it will be $160" · house only for +20% next year · tickets to sell at the door · card "will double again" · empty apartment after +30%

5 Haarlem 1637

legend · records

- **Guilder** = Dutch money of the time · skilled craftsman ≈ **300** guilders a year · rare striped bulbs soared from late 1636 → buyers stopped in **early Feb 1637**
- Dearest documented bulbs ≈ **5,000 guilders** ≈ a fine house → `5,000 ÷ 300 ≈ 17` years of pay
- LEGEND Charles **Mackay** (Scottish writer, 1841): a whole nation lost its head, thousands ruined
- RECORDS much of it **paper**: promises of bulbs still in the ground · Anne **Goldgar** (American historian in London, 2007): a few hundred traders, mostly merchants and craftsmen, nobody found bankrupt (= unable to pay debts) · Peter **Garber** (American economist, 1989): famous prices only for a few rare varieties; ordinary bulbs sold by weight
- Practice: "tulips ruined Holland" → beyond the records · a promise of 1,500 ÷ 300 = **5 years** of pay: heavy for one buyer, not a ruined country

6 The pattern

checklist sign 1

- Charles **Kindleberger** (American economic historian, "Manias, Panics, and Crashes", 1978): **a story** (rare striped tulips) → **rising prices** → **buying to resell** → **first sellers cash out** (sell, keep the profit) → **buyers stop**, the last holders lose
- The crowd (Behavioral Economics, Lesson 8): following it is sensible when it knows more, ruinous when it only follows itself · Hyman **Minsky** (American economist, 1919–1996): long calm → more risk
- **Bubble checklist** (one warning sign per lesson) · **Sign 1 · Bought to resell, not to use**

Watch out: a high price is not a bubble by itself: ask **why** the buyer pays (use or resale) · in a bubble **demand** moves, not supply · the last buyer's loss = the earlier sellers' gains (total 0) · a real bubble ≠ a ruined country: check the records