



3: Historic Bubbles - The Dutch Tulip Bubble And The US Railroad Bubble



Picture Source:

<http://en.wikipedia.org/wiki/Tulipomania>

You can walk into any florist shop today and buy tulips. However, in 1630 the tulip created one of the largest bubbles the world had ever seen.

Around 1630 professional tulip traders entered the Dutch market because the Dutch appreciated art and aesthetic objects. The traders introduced a special variety of tulip from Turkey that had a non-fatal virus known as mosaic, as shown above. This virus triggered the tulip petals to develop colored stripes that helped fuel the wild speculation in tulip bulbs and the more bizarre the bulb, the greater the price.⁶

Within a few short years of tulip florists entering the market, the tulip market had exploded. For example, in 1633 three rare bulbs were exchanged for an entire farm. By 1636, any tulip could be sold off, often for exorbitant sums, while only a few years earlier these same tulips were sold by the pound. At this time, the prevailing belief was that the tulip market was immune to crashing and that it would always go up.⁷

The graph below illustrates the incredible rise and fall of the value of the tulip bulb over the three-year height of the market from 1634 to 1637.⁸

