

# Good term paper on housing price bubble

[Experience](#), [Belief](#)



Housing price bubble refers to the situation where, there is a speculation regarding the price increase of the property and the supply is limited. The prices of the house start to rise due to short supply and remained high for a reasonably long period. At the same period, speculators enter the markets and the demand further goes up. At some point of time the demand is static and somehow supply is increased which results in lowering back the prices to significant levels and the bubble is busted .

There is a general opinion that FED was responsible for the housing price bubble. Almost every critic argues that housing crises occurred due to the low interest rates by FED. Apparently, this opinion seems valid because people normally believe that FED has enough influence to drive the rate of interest by injecting more and more money in the economy.

I agree with the above statement, such as interest rates were too low in the beginning of 2000 but there were several other factors that influenced the interest rate. For example, a sudden increase in the saving culture forced the institutions to cut the interest rates to attract borrowers. This actually happened in real as highlighted by the former CEO Mr. Greenspan that, there was increase in saving culture in Chinese economy and few Middle East countries. Evidences are available that the saving were enhances and not the money supply in the economy, which resulted in lower interest rates. Since 2001, yearly growth rate of money of zero maturity declined from over 20% to almost 0% by 2006. Annual growth rate of monetary base also fell from 10% to below 5%, on which FED has the most control.

Another important point to discuss is that, if FED was responsible for the housing price bubble, then why did it occur in the whole world. For example,

Spain was another country where price bubble affected to a huge extent and FED had no control in the economy of Spain.

Federal Reserve chairperson, Mr. Ben S. Bernanke also defended FED. In his opinion, the price rise in the other countries and size of the asset bubble was too large to be caused by changes in the mortgage rate. In addition to this, he said that, the home prices already started to rise before FED. Lowered the interest rates .

Further, it can be argued that most of the worst loans were made by the private sector lenders and not the government.

Although, I disagree that FED was responsible for this housing price bubble but, on the other hand, there was a minor part of FED in these crises. FED did not properly supervise the whole process and the regulations. Another area of FED's poor performance was consumer protection.

Main causes of crises are community Reinvestment Act, Freddie Mac and run-amok Fannie. These all played a vital role in breaching lending standards.

In the light of above mentioned arguments, general perception of FED being held responsible for the crises does not make sense. There is a little role of it as far as the supervision is concerned, but most of the other factors beyond FED's confines such as increase in the saving, loosening credit standards, contributed to worst situation.

## **Appendix**

Graph showing the comparison of housing price bubble in different countries

List of References

Bernanke. Ben S. Personal Finance. March 2012. March 2012 .

<https://assignbuster.com/good-term-paper-on-housing-price-bubble/>

Roberts. Lawrence. The Great Housing Bubble. New York: Monterey Cypress Publishing, 2008.