



ECONOMIC BUBBLES



Scan to review worksheet

Expemo code:
144N-IDEQ-R56

1

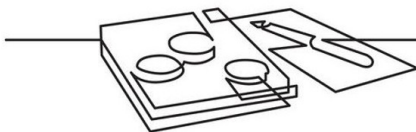
Warm up

Answer these questions:

1. Which of the following is the definition for an **economic bubble**?
 - a. a situation in a market when the price of something goes up to a point far beyond its real value
 - b. a very quick drop in prices of stock, usually in a way that few people saw in advance
 - c. a long period of economic inactivity in a country, shown by low wages, low incomes, and high unemployment
2. What are the other two definitions for?
 - a. a **stock market boom** and a **stock market crash**
 - b. an **economic depression** and a **stock market boom**
 - c. a **stock market crash** and an **economic depression**

Now in pairs, discuss the following questions:

1. Why do you think an economic bubble is named as such?
2. Are you aware of any economic bubbles in the last twenty years? What happened?





2 Reading about the subject

Read about the five stages of an economic bubble. First, choose the correct vocabulary for describing upward and downward trends in the text. Then add the titles from the box to each paragraph.

profit-taking

euphoria

panic

displacement

boom

1. ____

This happens when people become excited about a new situation and want to invest in it, for example a new type of technology or interest rates being unusually ¹ **small/low/less**.

2. ____

To begin with, prices of the asset ² **increase/increasing/increased** slowly after the displacement. However, due to it attracting a lot of interest in the media, there are large numbers of investors and traders, which leads to prices ³ **risen/rose/rising** more quickly.

3. ____

During this stage, the prices of the asset ⁴ **inflated/inflate/inflating** enormously at great speed. Everyone gets caught up in the idea that there will always be more buyers, regardless of how high prices go. Cautious investing is almost non-existent as everyone is trying to make as much money as quickly as possible. There is a great deal of excitement.

4. ____

Smart investors begin to realise that the market is about to ⁵ **crashing/crash/crashed** and start to sell their assets. There is often great disagreement over when a bubble is about to burst however, as it is difficult to work out the real value of an asset. This is due to the fact that the usual factors of supply and demand are no longer setting the price.

5. ____

It can only take a small event to cause the bubble to ⁶ **deflating/deflate/deflated**, yet when it starts, it will not reflate. Suddenly prices ⁷ **decrease/decreasing/decreased** just as rapidly as they increased, and all of the people who had bought the asset realise that they have something that is not worth what they paid for it. Everyone tries to sell quickly in order to recoup or limit their losses. Supply now ⁸ **surged/surging/surges**, becoming much larger than demand and invariably a lot of people lose a lot of money which has consequences elsewhere.



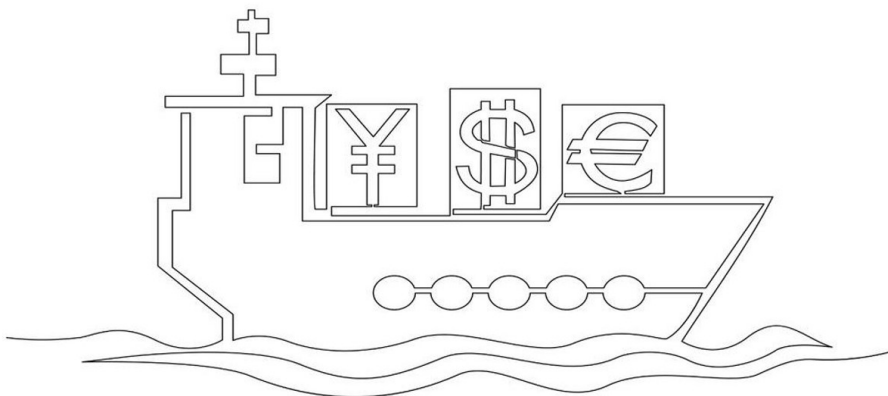
3 Understanding vocabulary

Part A: Before you watch, match the words to form collocations that you will hear in the video.

- | | |
|--------------|--------------|
| 1. partial | a. age |
| 2. golden | b. craftsman |
| 3. high | c. demand |
| 4. trading | d. flower |
| 5. exotic | e. loop |
| 6. intrinsic | f. ownership |
| 7. skilled | g. value |
| 8. feedback | h. vessels |

Part B: Now write the collocations next to the correct definition.

- _____ a period in the past when an art or an activity was at its peak
- _____ a worker who has a particular skill, such as a carpenter
- _____ when a lot of people want a particular asset
- _____ how much something is worth which may differ from how much it cost
- _____ a boat or ship that carries cargo or passengers for profit
- _____ more than one person owns something, e.g. a company
- _____ the outputs of a system are circled back and used as inputs
- _____ often grown in sub-tropical climates, but usually from a different geographical region





Part C: Now put the collocations into the correct gap in these sentences.

1. What goods or skills are in _____ in your country?
2. In your opinion, what was the _____ of film, and music? Why?
3. Do you own something which has an _____ that is far less than its sentimental value? What is it? Why?
4. When it comes to improving systems in your company, do you have a _____? How does it work?
5. Are you a _____? Would you like to be one? What would you like to be able to make?
6. Have you ever received or given an _____ as a gift? Why? What happened?

Now answer the questions.

4

Introducing the topic

Look at these sentences from the script. Number them in the correct order.

At different points in time, tulips, real estate and stock in pets.com have all sold for much more than they were worth. ____

Economists call this a bubble. ____

How about a million dollars? Probably not. Well, how much would you pay for this house, or partial ownership of a website that sells pet supplies? ____

How much would you pay for a bouquet of tulips? A few dollars? A hundred dollars? 1

In each instance, the price rose and rose and then abruptly plummeted. ____

So what exactly is going on with a bubble? ____



Watch the video (00:00 - 00:42) to check your answers.



5

Watching for details

Now watch the whole video and answer these questions.

1. During the ___ Amsterdam was greatly significant as a port and a centre of commerce
 - a. 1640s
 - b. 1650s
 - c. 1630s
 - d. 1620s

2. Wealthy citizens of Amsterdam liked to display their wealth by ___
 - a. sending large bouquets of flowers to family and friends
 - b. having flower displays around their house.
 - c. collecting exotic flowers.
 - d. surrounding their houses with flower gardens.

3. Certain tulips were rarer and considered more beautiful than regular tulips as they had been ___ . The demand and price for these tulips increased.
 - a. transported from Asia
 - b. affected by a virus
 - c. grown in a laboratory
 - d. favoured by the royal family

4. At the peak of tulip-mania, a skilled craftsman's salary was ___ the cost of one tulip bulb.
 - a. ten times less than
 - b. half
 - c. ten times more than
 - d. twice

5. Typically, stock prices increase due to ___
 - a. a greater supply of shares.
 - b. the perceived future earning potential of a company.
 - c. the track record in sales of a company.
 - d. an even distribution of supply and demand of shares.

6. An economic bubble bursts when ___
 - a. there are no longer any shares left to sell.
 - b. demand for a product outweighs supply.
 - c. everyone realises the price is higher than the intrinsic value of the stock.
 - d. the stock market crashes.

7. The history of 'tulip mania' is useful because ___
 - a. it's an example of the rules which create an economic bubble.
 - b. it warns us that plants and flowers are a bad investment.
 - c. it enables us to accurately predict future bubbles.
 - d. it prevented a similar problem with real estate in the 2000s.



8. The speaker predicts that in future, the economy will ____
- avoid economic bubbles due to what we have learnt in the past.
 - see more economic bubbles than ever before as a result of the internet.
 - mainly have economic bubbles related to real estate.
 - continue to fluctuate and see more economic bubbles occur.

Was there anything new you learnt?

6**Talking Point**

In pairs or groups, discuss the following questions.

1. Have you or anyone you know bought stocks in anything? What was the reason for buying? If you haven't bought stocks, would you consider doing so in future? Why? Why not?
2. If you had a stock that you realised was losing value, what would you be most likely to do? Sell it as quickly as possible, or keep it hoping that it would regain its value later?
3. Have you ever bought something which you later realised was not worth what you paid for it? What was it? What happened?
4. Are you someone who likes to take risks to make money? Or do you prefer to avoid risk altogether? Why?
5. At the end of the talk, the speaker says 'treat yourself to a bouquet of tulips and enjoy the fact that you didn't have to pay an arm and a leg for them.' What does it mean if you **pay an arm and a leg** for something? What items or services do you have to 'pay an arm and a leg for' in your country?