

UGBA 98/198

Introduction to Investment

Spring 2009



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Lecture 6 – Introduction to the 2007-20XX crisis

No Cell Phones!



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The Housing Bubble:

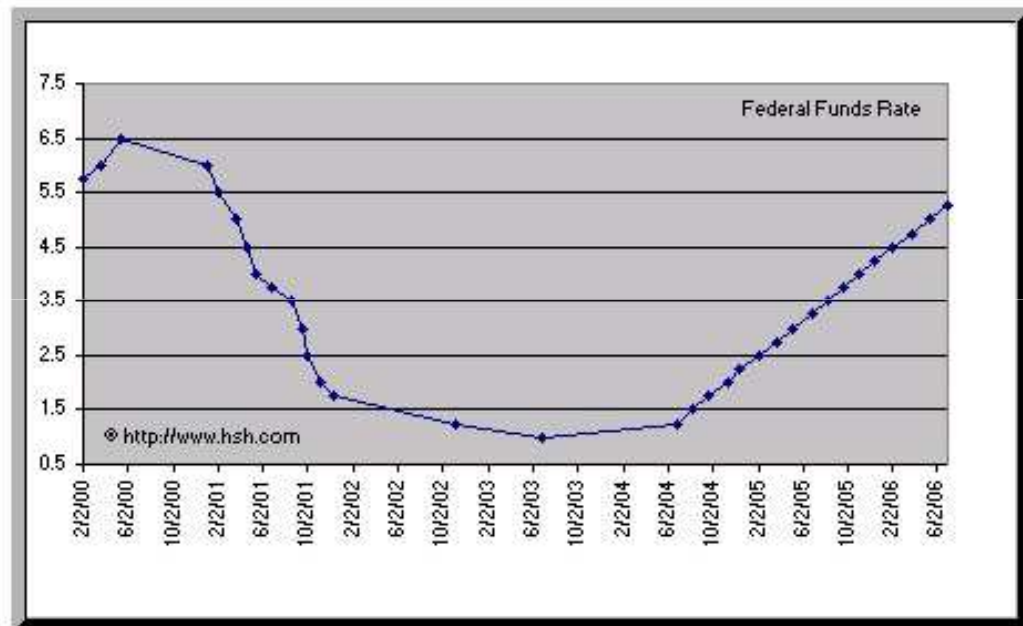
Part I: Politics



9/11



Interest Rates

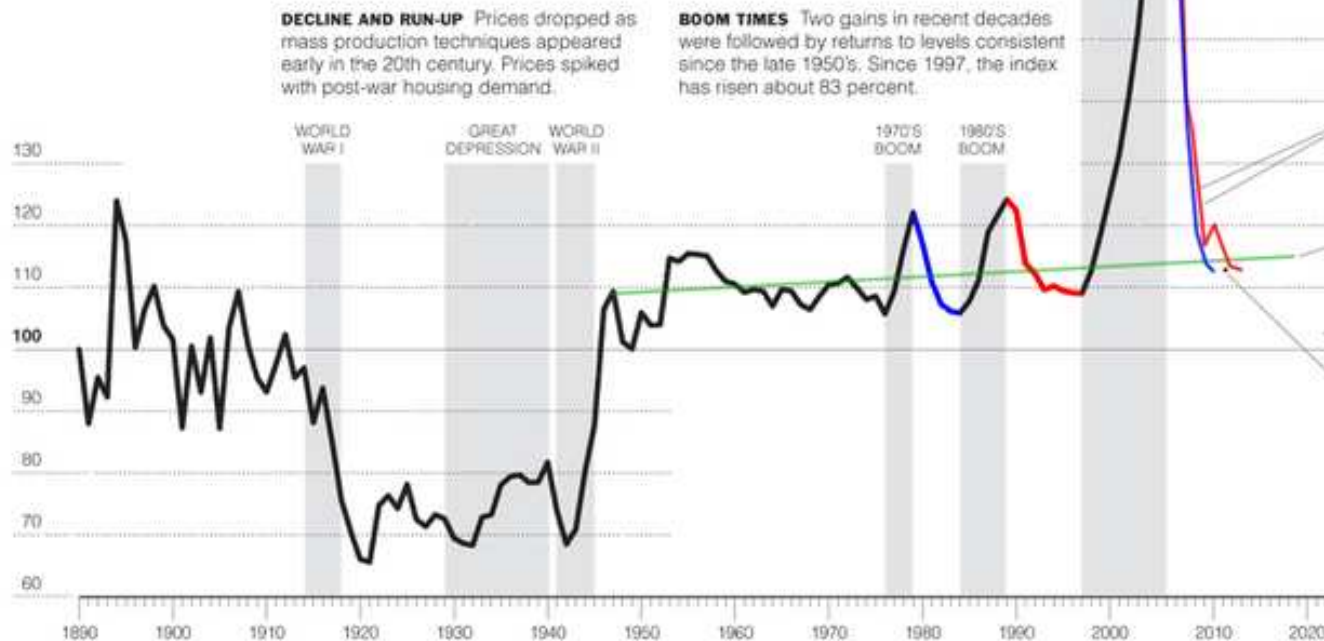


Housing Prices

A History of Home Values

The Yale economist Robert J. Shiller created an index of American housing prices going back to 1890. It is based on sale prices of standard existing houses, not new construction, to track the value of housing as an investment over time. It presents housing values in consistent terms over 116 years, factoring out the effects of inflation.

The 1890 benchmark is 100 on the chart. If a standard house sold in 1890 for \$100,000 (inflation-adjusted to today's dollars), an equivalent standard house would have sold for \$66,000 in 1920 (66 on the index scale) and \$199,000 in 2006 (199 on the index scale, or 99 percent higher than 1890).



A Likely Future of Home Values

The projected future of house prices is based on the last two real estate cycles.

The two previous downturns have been applied to the current boom. The curves are scaled to fit the average market trend since World War II.

Two previous downturns (scaled)

Overall market trend since World War II.

The real estate market is likely to "bottom out" around 2011.

This corresponds with a 43.5% correction in house prices.