

Speculative investment drives out good investment: why it is important to minimize

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Abstrak

Put in simple terms, a 'bubble' refers to financial assets (like stock or land) whose price grows out of proportion from its 'fundamental value'. Once the bubble bursts, the economy could fall into recession, and in the worst case scenario turns into an economic financial crisis. While most ASEAN economies suffered instantly from the burst of the crisis in 1997, mature economies, such as Singapore, Japan and the US, only buffered minor fluctuations at the time. Now, however, concerns are being raised as to how mature economies - time experienced in the 1990s - may be affected by the current slowdowns, most notably in Japan and Singapore, but also to a lesser extent in the US - it is plausible that a similar problem could reappear as in a recession in the advanced economies. This article attempts to understand the anatomy of such bubbles and determine whether they are prone to cause a problem.