

## THE POWER OF PERSPECTIVE: EDDISON WALTERS' RISK EXPECTATION THEORY AND GLOBAL FINANCE CRISIS

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### Article Info

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### Abstract

The Global Financial Crisis of 2007 and 2008 was a major economic event that had a significant impact on the global economy. The widely held theory that the crisis was caused by a financial and real estate bubble has been challenged by recent research. Walters (2018) presented evidence that there was no statistically significant evidence of change in the growth of net FDI inflow for developed countries for periods preceding and subsequent to the crisis. This suggests that the crisis was not caused by a bubble, but by other factors, such as the Eddison Walters Risk Expectation Theory.

### 1. Introduction

The lack of evidence in support of the widely held theory of a financial and real estate bubble, which was responsible for causing the Global Financial Crisis of 2007 and 2008 in the literature, raised serious questions regarding the recent financial crisis that required additional research. A financial bubble, defined as protracted divergence over a period between an asset market price and the fundamental determinants implied value with an unusually high volume of trading or sales (Starr,2012). Walters (2018) presented evidence which suggested there was no statistically significant evidence of change in the growth of net FDI inflow for developed countries for periods preceding and subsequent to the Global Financial Crisis of 2007 and 2008. The development of Eddison Walters Risk Expectation Theory of the Global Financial Crisis of 2007 and 2008, in Walters (2018) presented an alternative theory for the cause of the Global Financial Crisis of 2007 and 2008. This new theory raised severe questions regarding Alan Greenspan's statement, which pointed to an abundance of available capital creating a financial bubble as a condition that led to a real estate bubble in the United State housing market, triggering the Global Financial Crisis of 2007 and 2008 (Greenspan et. al ,2010; Khayoyan, 2012).

Considering new questions raised by Walters (2018), an investigation into what triggered the Global Financial Crisis of 2007 through 2008 is required. It is critical to gain an understanding of precisely what triggered the financial crisis to avoid the same mistakes in the future.

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## **Background of Study**

The current study investigated questions raised in Walters (2018), in which the Eddison Walters Risk Expectation Theory of the Global Financial Crisis of 2007 and 2008 was first presented. Walters (2018) presented evidence which challenges widely accepted theories of the cause of the Global Financial Crisis of 2007 and 2008 in the body of literature. The Global Financial Crisis of 2007 through 2008, described as the most significant economic event since the Great Depression (Adebambo, Brockman, & Yan, 2015; Fairfax 2009; Ökte, 2012; Thakor, 2015). Literature noted, the financial crisis which started in the United States subprime mortgage industry quickly spread around the world, causing capital markets across the globe to become frozen, threatening to collapse the entire global economy (Adebambo et. al, 2015; Greenspan, Mankiw, & Stein 2010; Mittnik, Nell, Platen, Semmler & Chappe, 2009; Ökte, 2012; Thakor, 2015). It is critical to explore alternative theories to gain an understanding of exactly what led to the Global Financial Crisis of 2007 and 2008 to prevent the same mistakes from being made in the future.

## **Statement of the Problem**

The lack of evidence supporting the widely accepted theory of a real estate bubble as the cause of the Global Financial Crisis of 2007 and 2008 raised questions regarding the existence of a real estate bubble preceding the Global Financial Crisis of 2007 and 2008. Further investigation is required. It is essential to gain an understanding of what has been called the most significant economic event since the Great Depression. Alack of a full understanding of the cause of the financial crisis may result in the same mistakes, leading to another financial crisis of the same magnitude in the future.

## **Purpose of Study**

The current research explored the alternative theory for the cause of the Global Financial Crisis of 2007 and 2008. The problem with the prevailing opinion of the Global Financial Crisis of 2007 and 2008, found in the literature, was presented by the research question. The researcher analyzed data and drew conclusions that pointed to a more likely trigger of the series of events, which led to the Global Financial Crisis of 2007 and 2008. The researcher expanded on Eddison Walters Risk Expectation Theory of The Global Financial Crisis of 2007 and 2008, which presented as an alternative explanation for the Global Financial Crisis of 2007 and 2008.

## **Research Question**

Is there evidence that supports the existence of a real estate bubble in the United States housing market preceding the Global Financial Crisis of 2007 and 2008?

## **Hypothesis**

**Ho:** The evidence suggested, there was not a real estate bubble in the United States real estate market preceding the Global Financial Crisis of 2007 and 2008.

**Ha:**The evidence suggested, there was a real estate bubble in the United States real estate market preceding the Global Financial Crisis of 2007 and 2008.

## **Nature of Study and Scope**

The current research was a quantitative investigation using secondary data from the Federal Housing Finance Agency database. The present study evaluated changes for effective mortgage interest rate, changes in loan-to-priceratio data, and changes in the U.S. Housing Price Index. The focus of the research was to gain an understanding of the condition, which led to the financial crisis.

## Limitations

The current research only considered what changes occurred in between periods preceding and subsequent the Global Financial Crisis of 2007 through 2008. The study was limited to available secondary data on developing and developed countries from the Federal Housing Finance Agency database.

## 5. Literature Review

Walters (2018) analyzed net FDI inflow for a sample of 34 developed countries and a sample of 36 developed countries around the world. The researcher found, for the sample of 34 developed countries around the world, there was no statistically significant difference between net FDI inflow between the two different periods analyzed, from January 2000 through December 2006 representing a period preceding the Global Financial Crisis of 2007 and 2008, and January 2010 through December 2016, representing period subsequent to the Global Financial Crisis of 2007 through 2008. The results of the research led to the development of Eddison Walters Risk Expectation Theory of The Global Financial Crisis of 2007 and 2008, in Walters (2018). This theory raised serious questions regarding the existence of a financial bubble preceding the Global Financial Crisis of 2007 and 2008. Several factors in the United States economy cited as conditions which led to the Global Financial Crisis of 2007 and 2008. An abundance of available capital which led to a rapid expansion of credit resulting from significant capital flowing into mature economies, along with the globalization of capital markets were cited as critical factors of the Global Financial Crisis of 2007 and 2008 in the literature (Greenspan et. al, 2010; Khayoyan, 2012; Starr, 2012). The theory of the Global Financial Crisis of 2007 and 2008 was based on the expansion of the subprime mortgage industry which was cited as a significant factor causing significant housing price increase in the United States housing market creating the condition that led to the Global Financial Crisis of 2007 through 2008 (Greenspan et. al, 2010; Khayoyan, 2012; Starr, 2012).

Roach (2005, Jan) discussed double-digit increase in home purchase price in 15 states, stating a 25-year high in annual inflation for United States home prices, which averaged 8.8% increase across the United States between the middle of 2003 and the middle of 2004. The literature described the rise in United States home prices as a bubble which would present Alan Greenspan with his most significant challenge (Roach, 2005, Jan).

Belke and Wiedmann (2005) discussed analysis by economists in the United States, reporting the existence of a real estate bubble in the United States housing market and other developed countries for several years before the literature was published in 2005. Between 2002 and 2005, prominent economists such as Robert Shiller and Dean Baker were receiving significant media coverage for the analysis, which suggested house prices were diverging from long-held historical growth rates in a substantial number of metropolitan areas (Starr, 2012). The literature also noted three articles by News Week on Shiller's views of real estate prices, and appearances on three major broadcast evening news. The research also noted six articles in USA Today on Baker's analysis of real estate prices (Starr, 2012). Literature also discussed statements of the existence of a real estate bubble in the UK by Mervyn King, the Governor of the Bank of England, based on the increase in home purchase prices (Belke & Wiedmann, 2005).

As late as 2005, Federal Reserve Chairman Alan Greenspan was still refuting the existence of a real estate bubble in the United States housing market (Belke & Wiedmann, 2005; Starr, 2012). Greenspan also was reported to have said; it was impossible for a real estate bubble to develop in the real estate market in the literature (Belke & Wiedmann, 2005). Ben Bernanke, the Federal Reserve Chairman's successor to Greenspan, views were also in line with Greenspan arguing house prices were based on strong economic fundamentals as late as 2005 (Starr, 2012).

Alan Greenspan, finally overwhelmed by all the analysis from economists defining the increase in home prices in the United States real estate market as a real estate bubble eventually reversed his long-held views declaring a worldwide financial bubble resulting from an abundance of capital flow to developed countries (Greenspan et. al, 2010; Khayoyan, 2012; Starr, 2012). Significant increased risk expectation was a substantial factor in the series of events causing the Global Financial Crisis of 2007 through 2008 (Greenspan et. al, 2010; Khayoyan, 2012; Starr, 2012). Greenspan also declared the global proliferation of securitized, toxic U.S. subprime mortgages as the cause for the Global Financial Crisis of 2007 and 2008 in his analysis of the crisis. Many in the literature also pointed to low-interest rates in developing a theory of a real estate bubble in the United States, leading to the Global Financial Crisis of 2007 and 2008 (Khayoyan, 2012; Spencer & Huston, 2013; Tayler, 2013).

Starr (2012) investigated coverage of analysis of California real estate market by economists from 2002 to 2007 in 24 California newspapers regarding the existence of a housing bubble. The researcher analyzed 379 articles, which included 688 cases where economists provided their views of the real estate bubble in the housing market. In the articles quotes from 1,153 economists on the topic of a real estate bubble were analyzed. Literature noted in 2002, 40.5% of economists predicted home prices in California were increasing too fast, and the level of growth would fall in the next few years. By 2004 more than 80% of economists predicted prices would fall because prices in the housing market in California were too high (Starr, 2012).

Pajarskas and Jočienė (2014) point to several factors that cause the Global Financial Crisis of 2007 and 2008. The literature noted, the United States subprime mortgage industry and programs focused on promoting homeownership for minorities and low-income borrowers who could not afford homes as one factor. The literature additionally noted, poor risk management by the banking industry and poor government regulation of mortgage securities and response to the real estate bubble in the United States housing market preceding the Global Financial Crisis of 2007 and 2008 as factors which cause the collapse of the United States subprime mortgage industry, leading to the financial crisis.

Several researchers raised questions regarding widely accepted views of low-interest rates as the cause of a real estate bubble in the United States real estate market, or if a real estate bubble ever existed at all. Literature concluded interest rates was not a statistically significant factor that had an impact on home purchase price in the United States housing market preceding the Global Financial Crisis of 2007 and 2008 (Khayoyan, 2012; Bryant & Kohn; 2013). Roll (2011) presented a very rational argument which raised questions about the existence of a real estate bubble that led to the Global Financial Crisis of 2007 and 2008. The literature presented the idea wealth transfer could not be responsible for a financial bubble preceding the Global Financial Crisis of 2007 and 2008. The growth in subprime mortgages in the United States was simply a wealth transfer, because the liability coincided with an asset held by an investor. The literature also cited foreclosures as wealth transfers from the mortgage holder to the borrower (Roll, 2011).

## **6. Methodology**

In this section, the researcher discussed the methodology used in the current study. The researcher identified the population and sample for the research. Sampling procedures, data analysis plan, threats to validity, and ethical procedures were also included in the methodology section. The researcher concluded with a summary.

### **Research Question**

Is there evidence that supports the existence of a real estate bubble in the United States housing market preceding the Global Financial Crisis of 2007 and 2008?

### **Hypothesis**

**Ho:** The evidence suggested, there was not a real estate bubble in the United States real estate market preceding the Global Financial Crisis of 2007 and 2008.

**Ha:** The evidence suggested, there was a real estate bubble in the United States real estate market preceding the Global Financial Crisis of 2007 and 2008.

### **Research Design**

The study was a quantitative research design in which data were analyzed using two-tailed t-test, regression analysis, time series analysis, and coefficient of linear correlation to gain an understanding of changes in mortgage interest rate, changes in loan-to-price-ratio, and changes in the U.S. Housing Price Index. Secondary data was collected from the Federal Housing Finance Agency database on conventional mortgage lending for single-family home purchases in the United States. Effective interest rate data from the 1st quarter 1998 through 2nd quarter 2017 was analyzed for the study. Loan-to-price-ratio data from 1st quarter 1998 through 2nd quarter 2005 represented a period preceding the Global Financial Crisis of 2007 through 2008, and loan-to-price data from 1st quarter 2010 through 2nd quarter 2017 represented a period subsequent to the Global Financial Crisis of 2007 through 2008 were also analyzed. U.S. Housing Price Index data was analyzed for two different periods preceding and subsequent to the Global Financial Crisis of 2007 and 2008. The period preceding the crisis, which was examined, was from 1st quarter 1998 through 2nd quarter 2005, and the period subsequent to the crisis from 1st quarter 2011 through 2nd quarter 2018 was also analyzed.

### **Population**

The sample analyzed in the study came from the population of single-family home purchases in the United States housing market between 1<sup>st</sup> quarter 1998 and 2<sup>nd</sup> quarter 2018. Single-family home purchases in the United States housing market with the use of government mortgages were excluded because subprime mortgages are not categorized as government mortgages.

### **Sampling and Sampling Procedures**

The researcher analyzed data from 100 largest metropolitan areas in the U.S. housing market to gain insight into changes in the United States real estate market between two different periods preceding and subsequent to the Global Financial Crisis of 2007 through 2008. Data from a sample of 100 largest metropolitan was selected for several reasons. There is much less variability of home price data from 100 largest metropolitan areas; therefore, there is a greater certainty of the accuracy of the home price data. The United States subprime mortgage industry favored home loans on homes in metropolitan areas and tended to try to avoid home loans outside the metropolitan area. The data was limited to 100 largest metropolitan areas, which prevented the data from being skewed and produced a greater impact on subprime mortgages of home prices. Because subprime mortgages are classified as convention mortgages, the data included only homes purchased using conventional mortgages. Homes purchased with government back mortgages were also excluded from the data analyzed in the current research, which avoided the data being skewed and gain a greater influence from subprime mortgages on the data analyzed. Home purchased with government back mortgages were also excluded because borrowers purchasing homes with government mortgages tended to have extremely low or no down payment at all. The secondary data was collected from an existing database. Data collected included effective mortgage interest rate data, loan-to-price-ratio data, and U.S. Housing Price Index data from the Federal Housing Finance Agency database on conventional mortgage lending for single-family home purchases in the United States.

### **Threats to Validity**

Federal Housing Finance Agency database was established as a reliable source of data in the literature. A search of the literature revealed peer-reviewed journal articles which established the Federal Housing Finance Agency database as a secure database for the study. The following articles are from peer-reviewed, scholarly research journals, Abowd and Vilhuber (2012); Bogin, Bruestle and Doerner (2017); Doerner and Leventis (2015); El-Montasser, Ajmi, Chang, Simo-Kengne, André and Gupta (2016); Epley (2012); He (2015); Rosenthal (2014); Schintler and Istrate (2011); Waldhart and Reschovsky (2012); and Weinberg (2014), provided evidence which supported the validity and reliability of the data for the research.

Steps were taken to avoid the data being significantly skewed by the effect of media reporting of a real estate bubble and government intervention in response to the Global Financial Crisis of 2007 through 2008. For loan-to-price-ratio data, the period 3<sup>rd</sup> quarter 2005 through 4<sup>th</sup> quarter 2009 was excluded from analysis to avoid significant impact from data being skewed from the same factors. The study of U.S. Housing Price Index data excluded the period 3<sup>rd</sup> quarter 2005 through 4<sup>th</sup> quarter 2010 to avoid significant impact from data being skewed also.

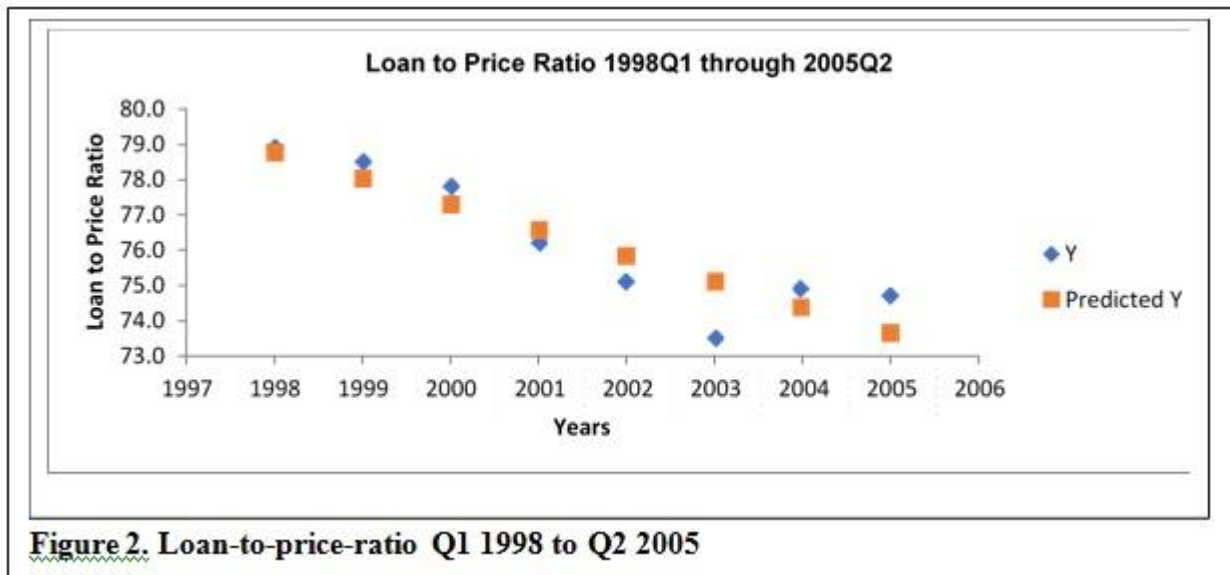
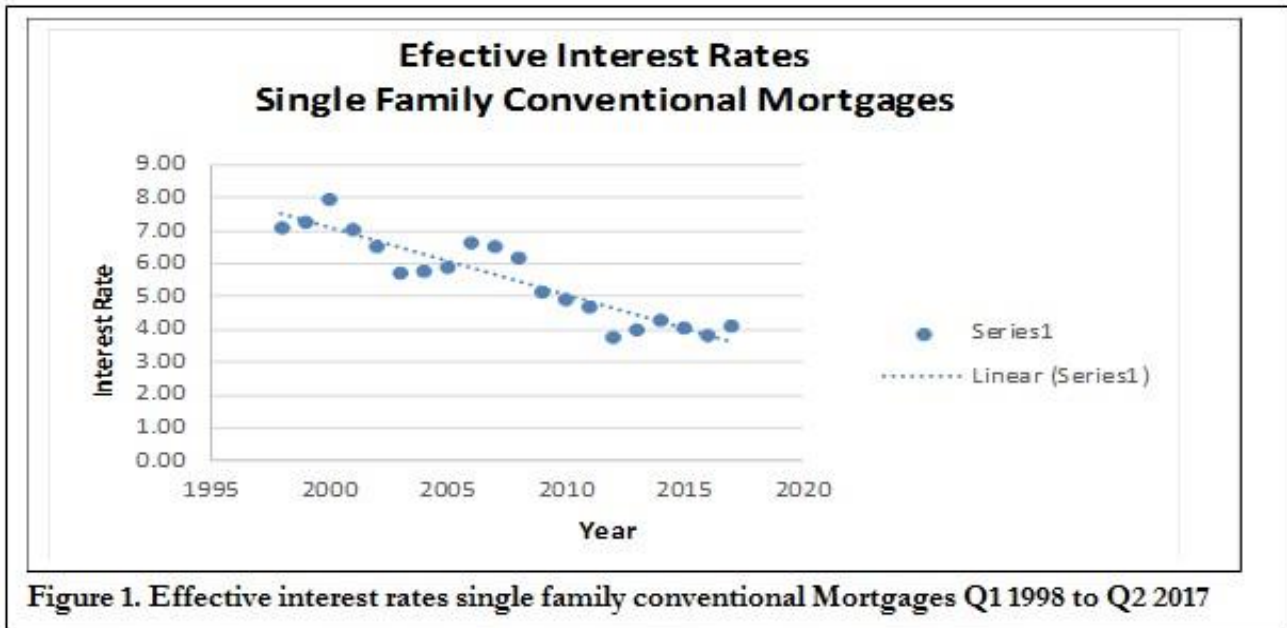
### **Ethical Procedures**

Secondary data was collected from the Federal Housing Finance Agency database, an existing database. There were no human subjects involved in the research.

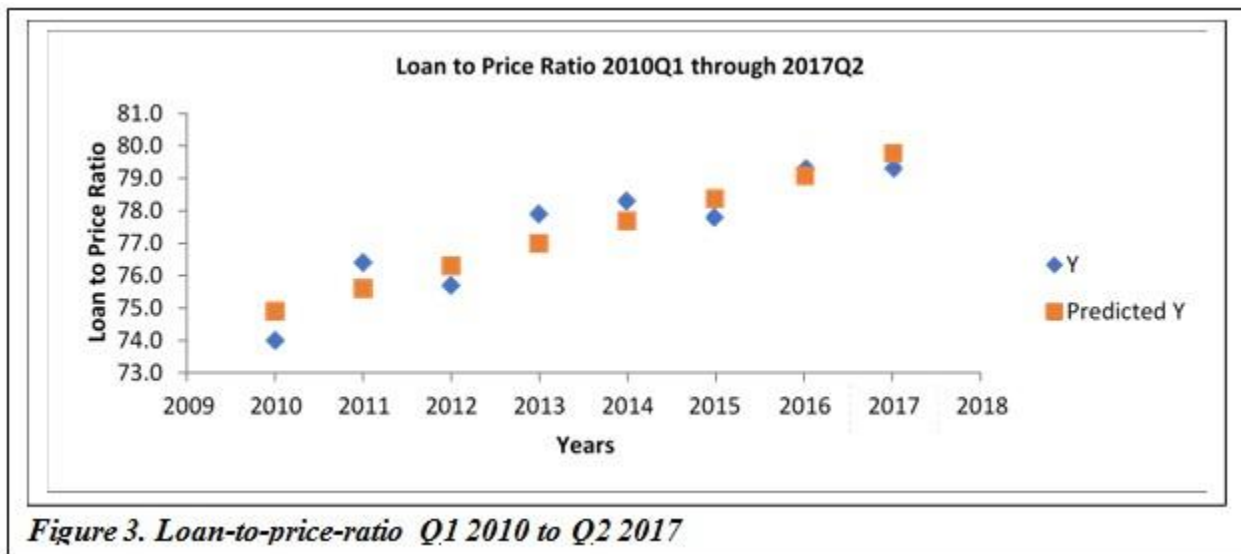
### **7. Results and Discussion Data Analysis Results**

Effective interest rate data in Figure 1, from 1st quarter 1998 through 2nd quarter 2017, was analyzed for the study. The researcher analyzed effective interest rates for home purchase using conventional mortgages for a sample of 100 Largest Metropolitan Statistical Areas in the U.S. housing market preceding and subsequent the Global Financial Crisis of 2007 through 2008 using regression analysis. Effective interest rates showed a downward trend continued subsequent to the Global Financial Crisis of 2007 and 2008. Effective interest rate low preceding the Global Financial Crisis of 2007 through 2008 was 5.73% in 2003. Effective interest rate ending 3<sup>rd</sup> quarter 2005 preceding the crisis was 6.60%. Subsequent to the Global Financial Crisis of 2007 through 2008, effective interest rate low was 3.77% in the year 2012. The effective interest rate sample was 4.12% ending 2nd quarter 2017 subsequent the Global Financial Crisis of 2007 and 2008.





The researcher used regression analysis to analyze the growth of loan-to-price-ratio in Figure 2, from 1st quarter 1998 through 2nd quarter 2005, which represented a period preceding the Global Financial Crisis of 2007 through 2008. Data from 1st quarter 2010 through 2nd quarter 2017 represented a period subsequent to the Global Financial Crisis of 2007 through 2008. Regression analysis revealed loan-to-price-ratio decreased during the period, which translated into an increase in average down payment percentage for home purchases for the sample during the period preceding the crisis.



The result of regression analysis in Figure 2, preceding the crisis revealed, loan-to-price-ratio for the sample showed a decreasing trend. Loan-to-price-ratio at the beginning of the period in the 1<sup>st</sup> quarter of 1998, preceding the crisis was 78.9% and loan-to-price-ratio at the end of the period in the 2<sup>nd</sup> quarter of 2005 was 74.7%. The average size of down payment for home purchase was increasing for the period preceding the Global Financial Crisis of 2007 and 2008. Regression analysis revealed an average increase in loan-to-price ratio in Figure 3, during the period 1<sup>st</sup> quarter 2010 through 2<sup>nd</sup> quarter 2017, subsequent to the Global Financial Crisis of 2007 and 2008. The result translated into a decrease in the average down payment percentage for home purchases for the sample in the period subsequent to the crisis.

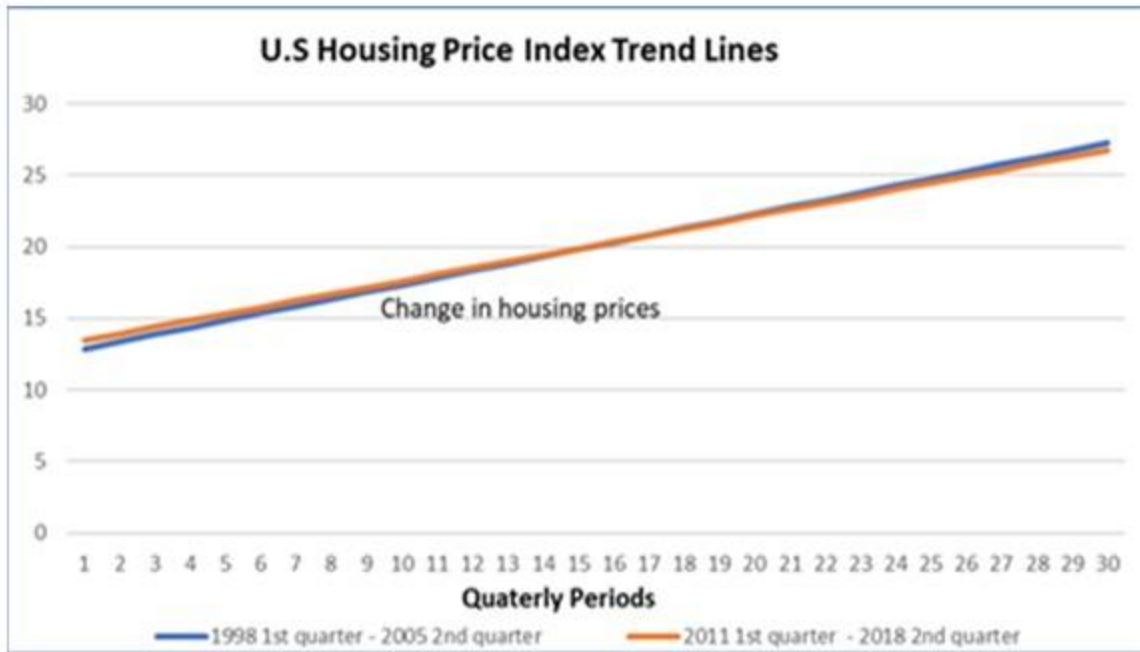
The result of regression analysis, in Figure 3, preceding the crisis revealed, loan-to-price-ratio for the sample showed a decreasing trend. Loan-to-price-ratio at the beginning of the period in the 1<sup>st</sup> quarter of 2010 subsequent the Global FinancialCrisis of 2007 and 2008 was 74% and loan-to-price-ratio ending the period 2<sup>nd</sup> quarter 2017 was 79.3%. The average size of down payments for home purchase decreased subsequent to the Global Financial Crisis of 2007 and 2008. In Table 1, regression analysis for the growth of loan-to-price-ratio for the sample preceding the

Global Financial Crisis of 2007 and 2008 for the period from 1st quarter 1998 through 2nd quarter 2005 showed an R-value with 81% variability and an X-value with a slope of -0.731. Loan-to-price-ratio regression analysis results subsequent to the Global Financial Crisis of 2007 through 2008, for the period from 1st quarter 2010 through 2nd quarter 2017 showed an R-value with 85% variability and an X-value with a slope of 0.695.

**Table 1. Regression analysis loan-to-price ratio and U.S. Housing Price Index**

	Preceding Global Financial Crisis of 2007&2008		Subsequent Global Financial Crisis of 2007&2008	
U.S. Real Estate Market	R-Value	X Variable	R-Value	X Variable
Loan-to-priceratio	1998Q1-2005Q2 81% variability	1998Q1-2005Q2 Slope -0.731	2010Q1-2017Q2 85% variability	2010Q1-2017Q2 Slope 0.695
U.S. Housing Price Index	1998Q1-2005Q2 97% variability	1998Q1-2005Q2 Slope 16.940	2011Q1-2018Q2 88% variability	2011Q1-2018Q2 Slope 18.557





**Figure 4. Growth of U.S. home price comparison Q1 1998 to Q2 2005 and Q1 2011 to Q2 2018**

Two tail t-Test analysis of the growth of housing prices in the U.S. Housing Price Index in Figure 4, revealed no significant difference in the growth of housing prices between the two different periods. Regression analysis of growth of housing prices for the U.S. Housing Price Index preceding the Global Financial Crisis of 2007 and 2008, for the period from 1st quarter 1998 through 2nd quarter 2005, resulted in an R-value with 97% variability and an Xvalue with a slope of 16.940. Regression analysis of growth of housing prices for the U.S. Housing Price Index subsequent to the Global Financial Crisis of 2007 and 2008, for the period from 1st quarter 2011 through 2nd quarter 2018, resulted in an R-value with 88% variability, and an X-value with a slope of 18.557.

Regression analysis of growth of housing prices in the U.S. Housing Price Index in Figure 4 showed the overall trend of home prices continued to increase at almost an identical rate for the periods preceding the Global Financial Crisis of 2007 and 2008, from 1<sup>st</sup>quarter 1998 through 2<sup>nd</sup>quarter 2005, and the period subsequent to the Global Financial Crisis of 2007 and 2008 from 1<sup>st</sup>quarter 2011 through 2<sup>nd</sup>quarter 2018.

### Hypotheses Testing

Based on the definition of a bubble as defined in Starr (2012), A period of protracted divergence between the market price of an asset and the value implied by its fundamental determinants, during which the volume of trading or sales is also unusually high(Starr,2012), the results of hypotheses testing were the following;

**Ho:** The evidence suggested, there was not a real estate bubble in the United States real estate market preceding the Global Financial Crisis of 2007 and 2008. **The researcher failed to reject Ho.**

**Ha:** The evidence suggested, there was a real estate bubble in the United States real estate market preceding the Global Financial Crisis of 2007 and 2008. **Ha was rejected by the researcher.**

### Discussion

Despite several steps being taken to ensure the maximum effect from subprime mortgages on home price data which was analyzed in the current research, the researcher found no evidence of statistically significant effect from subprime mortgages or effective interest rates on home purchase price in the United States real estate market between the two different periods, preceding and subsequent to the Global Financial Crisis of 2007 and 2008. Based on the evidence presented in the current study, the researcher concluded the existence of a real estate bubble

in the United States real estate market preceding the Global Financial Crisis of 2007 and 2008 was a false conclusion.

Several steps were taken in the current research to ensure the results of data analysis produced the maximum effect from home purchase with the use of subprime mortgages, between the two different periods. Subprime mortgages are classified as conventional mortgages.

The data analyzed in the current study included conventional mortgage data only. Because of the exclusion of government mortgage data, the impact of subprime mortgages on the data analyzed in the present study should have been much more significant than the effect would have been, had home purchases using all types of mortgages been included. The analysis of home price data revealed the growth of home prices was almost identical for the period preceding and subsequent to the Global Financial Crisis of 2007 and 2008. Additionally, the result of analysis of interest rates and loan-to-price-ratio were the opposite of what one would expect if a real estate bubble existed.

Economists pointed to low mortgage interest rates for too long of a period preceding the Global Financial Crisis of 2007 and 2008 as one factor that caused a real estate bubble, but subsequent to the Global Financial Crisis of 2007 and 2008, mortgage interest rates fell even lower. The mortgage interest rate low was 5.73% preceding the crisis. Subsequent to the crisis, the mortgage interest rate fell to as low as 3.77%.

Economist also presented the idea, risky subprime loans by borrowers with little or no down payment caused a real estate bubble preceding the Global Financial Crisis of 2007 and 2008. The only problem is, the exact opposite was taking place in the United States real estate market. Down payment for home purchases was increasing for the period preceding the Global Financial Crisis of 2007 and 2008. Down payment for home purchases subsequent to the Global Financial Crisis of 2007 and 2008 decreased. Borrowers made smaller down payments subsequent to the Global Financial Crisis of 2007 and 2008. Preceding the crisis, average down payment for home purchase was approximately 25%. Subsequent to the crisis, the average down payment for home purchases fell to about 20%.

The Global Financial Crisis of 2007 and 2008 started in the United States real estate market, but the cause of the most significant financial crisis since the Great Depression was not a real estate bubble created by subprime mortgage lending. The analysis of the data in the current study suggested the subprime mortgage industry may have been the casualty of the Global Financial Crisis of 2007 and 2008, rather than the cause. Base of additional evidence presented in the current study, Eddison Walters Risk Expectation Theory of the Global Financial Crisis of 2007 and 2008 must be given serious consideration as a more plausible explanation of the cause of the Global Financial Crisis of 2007 and 2008.

The Eddison Walters Risk Expectation Theory of the Global Financial Crisis of 2007 and 2008 made the case, and the financial crisis was caused by risk expectation. A consistent stream of economist and irresponsible media with an agenda, eager to paint a picture of an economic crisis, accepted the idea of the theory of a real estate bubble which was caused by risky subprime mortgage lending with no evidence presented in support of the argument. The constant drumbeat of an impending financial crisis by the media was indeed a significant factor that led to the Global Financial Crisis of 2007 and 2008.

The Global Financial Crisis of 2007 and 2008 was the unintended consequence of irresponsible media reporting, which created extremely high-risk expectation in the United States Subprime Mortgage Industry, causing lenders to stop lending, which led to the financial market crash. The media failed to ask questions regarding the lack of evidence presented in support of the existence of a real estate bubble. The media failed to ask questions which

may have led to alternative theories as to the cause of the rapid increase in home prices in the United States preceding the Global financial Crisis of 2007 and 2008 being explored.

A far more likely explanation for the rapid increase in home prices in the United States real estate market, was the effect of advancement in technology on the real estate industry preceding the Global Financial Crisis of 2007 and 2008. Advancement in technology significantly increased the marketability of homes, because the number of possible buyers for a home placed on the market grew exponentially. As the availability of buyers increased, so did home prices. In addition, advancement in technology also streamlines the mortgage application process allowing many more buyers to qualify for mortgages to purchase homes. This also increased demand for homes, causing home prices to increase.

Both Federal Reserve Chairman Alan Greenspan and Ben Bernanke were correct in 2005 with their assertions; it was impossible for a real estate bubble to develop due to the efficient-market-hypothesis (Belke & Wiedmann, 2005). The rate of growth in the United States home prices were not distorted preceding the Global Financial Crisis of 2007 and 2008. The data analyzed in the current research provided evidence which showed home prices continued to increase at a similar rate subsequent to the Global Financial Crisis of 2007 and 2008. Results of data analysis also revealed larger down payments were made for home purchases preceding the financial crisis, which completely dispelled the idea of statistically significant investment by homeowners with little or no down payment as a factor which cause the rapid increase in home prices.

The failure to consider advancement in technology as a factor which caused the rapid increase in home prices was a significant error that significantly contributed to a crisis that could have been avoided. The eagerness of the media to report on a housing bubble was fuel added to the fire, which cause wild speculations of a real estate market crash. There was a significant effect as a result, which caused lending to stop in the United States Subprime Mortgage Market, resulting in the Global Financial Crisis of 2007 and 2008.

There are many lessons to be learned by the continued study of the Global Financial Crisis of 2007 and 2008. This financial crisis threatened the entire world financial system. Economies of entire countries around the world were destroyed as a result of this avoidable financial crisis. The idea, the greatest financial crisis since the Great Depression was a self-fulfilling prophecy which could have been avoided is quite troubling. There is a need to reconsider the literature on the cause of the Global Financial Crisis of 2007 and 2008, considering recent developments.

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