

What Bitcoin and Tulips Have in Common

Vocabulary:

investment = the act of spending money in the hope of making a profit

Example: His investments in real estate and stocks made him a rich man.

mania = extreme excitement or desire for something

Example: Every time there's a soccer tournament, soccer mania takes over our town.

speculation - a guess or idea about something that is not certain

Example: A large amount of speculation in the market has pushed up oil prices.

glut - too much of something; surplus

Example: There's a glut of cheap cars on the market at the moment.

intrinsic - belonging to someone or something naturally

Example: Paper money has no intrinsic value.

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Investments that fail are not new events. The earliest example on record is the Dutch tulip mania of the 17th century. Tulips were beautiful and hard to come by, so they were in high demand. Some people began buying up large volumes of tulip bulbs in the hope of making a profit when they bloomed. Soon, tulips began to be traded on the Amsterdam Stock Exchange, and even more people began buying them out of speculation.

At the height of tulip mania, in February 1637, investors were selling their homes to purchase a single bulb at a cost of up to \$76,000 in today's money. Then early buyers began selling their tulip holdings, causing the price to weaken. As the price dipped, more people rushed to sell, and soon there was a glut of sellers, and not enough buyers. Within a month, the tulip that had previously sold for \$76,000 was worth less than one dollar.

Tulip mania began with people buying something they did not need because they believed someday, someone else would buy it for more than the original price, even though the item in question had no practical use. The same could be said for Bitcoin.

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