Chapter 2
Overall view of speculative markets

“Is the current increase in investment in rare books wholly a good thing? Personally I have reservations. They arise from stories I heard at my father’s knee about the crash in the 1930s: books at that time had been driven up in price far beyond the levels that were truly supported by their significance and their rarity”. These were in 1994 some of the reflections of A. Rother, past president of the International League of Antiquarian Booksellers. The crash that he refers to began in New York after the spectacular fireworks of the Jerome Kern sales in January 1929 and deepened after the stock market crash of October 1929. Values fell so heavily that in 1933 it was customary to pay for Kern copies no more than 10 to 15 percent of what they had fetched at these sales.

The stock market crash has been studied in great detail, but to our best knowledge the crash in the antiquarian book market did not attract much attention. And yet it is in a sense even more revealing of the shift from a state of euphoria to one of dejection. As a matter of fact, if the book market fell it was not just because of the drop in revenue which resulted from the stock market crash, for even fairly cheap books in a price range around 10 dollars were no longer bought and their price plunged. As we will see in a subsequent chapter the fall affected all price segments from books costing less than 10 dollars to books costing more than 1,000 dollars. Thus, studying the book market gives an opportunity to learn how the society reacted.

Curiously, this sort of information has largely been neglected by economists. From the vast literature about speculative bubbles one would draw the conclusion that speculative trading is confined to financial markets. As an illustration of that predilection one can for instance mention Cohen’s book (1997) that we have already cited. Although it considers the question of speculation in a broad historical perspective which makes its reading quite captivating, non-financial markets are almost completely ignored. Even the property
market which has so close connections with financial markets is only briefly mentioned (less than three pages are devoted to it in a total of about four hundreds).

The present chapter provides an overview of several speculative markets. Actually, the expression “speculative market” is probably a pleonasm for any market can give rise to speculative episodes. When we use that expression it rather means that we have statistical evidence of speculative price peaks. At the end of the chapter we also consider stock markets but only shortly since a special chapter will be devoted to them later on. For each market we restrict ourselves to presenting a number of basic facts; special attention is given to the presentation of statistical sources in the hope of encouraging further studies of these markets. Being more descriptive than analytical, the present chapter is mainly intended for reference purposes; it provides the elements on which subsequent chapters will draw. Accordingly, it can be skipped by well-informed readers or by those who are more interested in analytical results and regularities.

1 Overview of speculative markets

In any markets there are at least two kinds of buyers and sellers (i) Those who buy or sell for personal use, subsequently referred to as users. (ii) Investors and speculators who make money by buying and selling with a profit. Such a distinction is particularly clear in property markets: the users are the residents who live in the houses or apartments they have bought while the investors are property developers, real estate agencies, insurance companies and so on. The proportion of investors in a given market is an important parameter which will be referred to as the speculative ratio. The speculative ratio is equal to 1 for stock markets and close to 0 for postage-stamp or coin markets which are dominated by collectors; for property markets it is of the order of 0.2.

In the following paragraphs we try to adopt a uniform presentation for each market: first there is a qualitative description of how the market works; then we discuss statistical sources; thirdly we give one or two instances of speculative episodes; finally, we discuss some of the specificities of the market under consideration.