

Research Proposal

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The Economic History of the Recent Financial Crisis Using Cantillon and Intervention Effects as a Basis for Explanation

Abstract

This research uses Cantillon effects and institutional, policy, incentives created in the market for home purchases in the US to show correlation and causation between an increase in the quantity of money and an increase in home prices during the housing “boom” and the subsequent financial collapse based on the “bust” of the housing boom. Initial results show that the FHA policy initiated in 1998 to encourage 0% down-payment mortgages for housing triggered a relationship between an exponential growth in housing prices with that of an exponential increase in the money supply. Initial results also show that this structural relationship ended in May 2006 when the SEC declared “accounting irregularities” at Fannie Mae, which also coincides with the downturn in housing prices. The paper will explore these “intervention” effects and the relationship between the housing bubble and the quantity of money (MZM measure) increases occurring simultaneously and will include an estimate of the institutional effects on the change in housing prices.

