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Interest Rates influenced by Asset bubbles

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Introduction:
The study of asset bubbles and interest rates has been a topic of debate in the field of financial economics for many years, where the prices of certain assets such as real estate, commodities, and stocks increase well over their intrinsic value, while interest rates are the rates at which banks lend money or borrow money from other banks. What is the correlation between these two terms? The buyer and borrower.

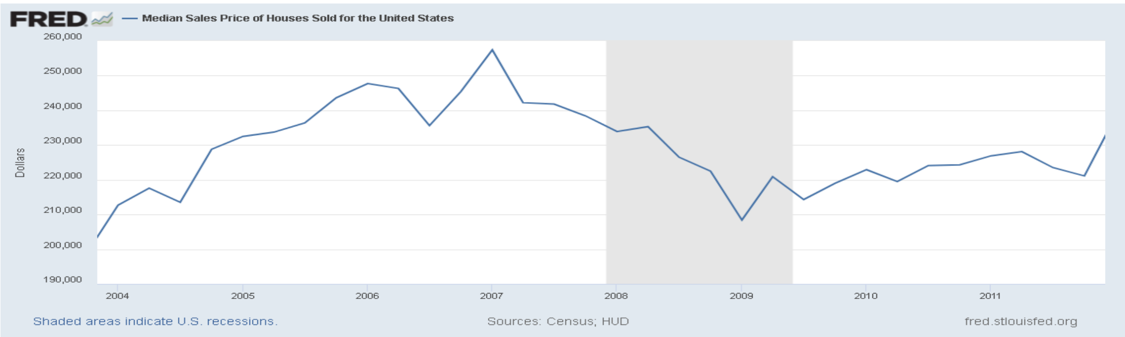
Background:
Major asset bubbles have been recorded nine times in history, of which the most recent bubble was the significant housing bubble of 2006 in the United States. This bubble was caused by many factors, but the most important role was that of an inflated housing price expectation, which meant there were predictions made that housing prices would exponentially increase over the next few years. This was a direct result of banks providing mortgage loans to many income classes and sometimes to individuals who would not be able to repay the same.

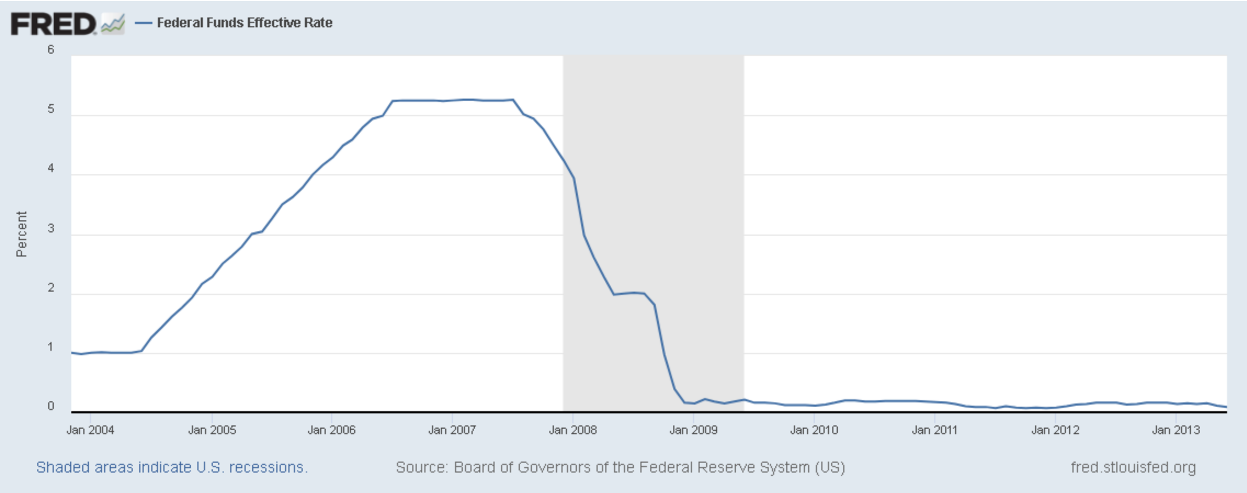
As this bubble expanded, another quantity correlated with the interest rates after a sudden decline between 2000 and 2002. The interest rate was 1%, and immediately increased linearly to 5.25% in 2008, and hit gradient 0, which could be metaphorized as calm before the storm. In July 2007, interest rates started dropping and hit a dead-end of 0.1%. The graph is then visualized.

It can be seen in these graphs that there was a peak in 2007 and then a fall, so what does this mean? This is proof of recession; thus, recession can be predicted beforehand by monitoring these two values, interest rate, and a rapidly increasing asset over its intrinsic values.

Result:
As we can see, interest rates dropped at exactly the same time as house mortgages, and that before the house rates dropped, sometimes suddenly dropping interest rates can be used to predict the drop in the value of an asset nationally. This is not only the case with the house market crash but also with the dot com asset bubble of 1990, which was an even bigger asset bubble where companies with dot com in their names were funded heavily in the stock market, raising their value even if they have nothing to show.

House Market:





Dot com Bubble