

**'An Evaluation of the bubble & bust cycle of the Irish
property market through application of the
Kindleberger-Aliber-Minsky Model'**

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Abstract

This Dissertation critically analyses and evaluates the Irish property bubble of the late 20th and early 21st centuries. The evaluation was done through the application of a model based on the works of Hyman Minsky, Charles P. Kindleberger, and Robert Z. Aliber. The first chapter contains a brief summary of the research problem, the research objective and the justification for the Dissertation. The scope and limitation of the Dissertation is also discussed, as well as the suitability of the researcher.

The second chapter is the Literature Review, which covers the macroeconomic theory on financial instability, along with the academic literature available on the Irish property bubble. The third chapter outlines the Research Methodology which the Dissertation employed. This chapter comprehensively discusses the approach and techniques used to complete the primary research, along with ethical and practical concerns. Chapter four is the Research Findings, wherein the findings from the research interviews are outlined. Little or no analysis takes place in this chapter; rather the views and opinions of the research participants are outlined.

The discussion on the primary research takes place in the sixth chapter, the Conclusion. Here, the findings from the previous chapter are evaluated and analysed through comparison to the comments of the interviewees, the theory literature, and the contextual literature. In this chapter, the Dissertation comes to a conclusion on the research objective, and makes recommendations as to areas of further research and policy change. The sixth and final chapter reflects on the learning that the researcher has experienced through the completion of the Dissertation research process and through the MBA programme in Dublin Business School. This chapter initially discussed the central theory on reflective theory, followed by the research outlining their reflective learning journey and plans for future learning and development. Career goals and advancement are also discussed in this chapter.

Chapter 1 - Introduction

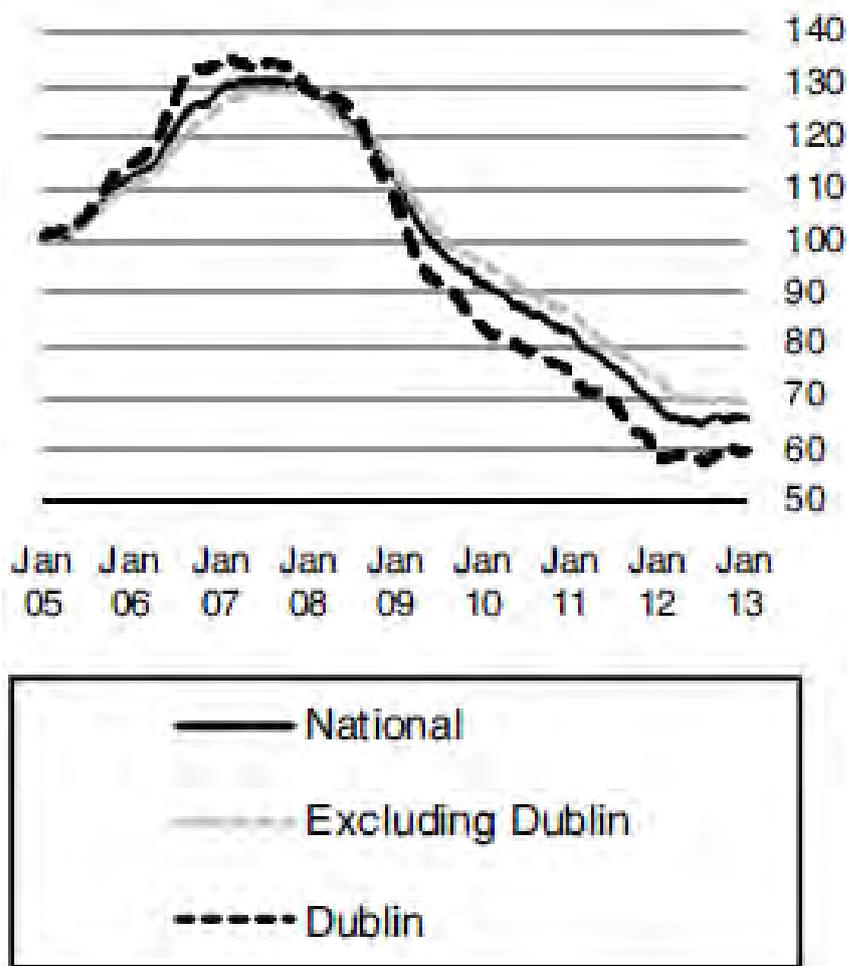
1.1 The Research Problem

"Those who cannot remember the past are condemned to repeat it" - George Santayana

The importance of the economy to society as a whole cannot be overstated, and this fact is more salient now than at any time in history. The financial problems in which Ireland now finds itself will have a lasting, negative effect on every element of society from rising unemployment and increased emigration, to increased taxation and the major negative impact on pension funds. In 2008, the Irish banking crisis broke and the Irish Government guaranteed the liabilities of six domestic banks, and subsequently nationalised one, Anglo Irish Bank (the now liquidated Irish Bank Resolution Corporation). At the centre of the Irish banking crisis was the Irish property bubble.

In Ireland, more than most developed economies, the property market is central to the economy. **As stated by the Regling and Watson Report (2010), there is a "strong and pervasive" inclination for property as a store of wealth in Ireland (Regling & Watson, 2010, p.5).** Between the late-1990s and the late-2000s a property bubble grew in Ireland. The subsequent bursting of the bubble ripped the heart out of the Irish banking system and kick started a recession unlike anything previously experienced. Since the bursting of the bubble, Dublin residential prices are down 56 per cent from their peak in early-2007, with country-wide residential prices (incl. Dublin) down 50 per cent over the same period (Central Statistics Office, 2013, p.1). For this reason, research on this subject is of the utmost importance to academia and society as a whole.

Figure 1 Residential Property Price Index



Source: Central Statistics Office, 2013, p.1

1.2 Objective of the Research

There has been much debate and discussion over the last number of years in Ireland as to how the current financial situation arose. To that end, numerous reports were commissioned by the government to get to the root cause of the crisis. In 'A Preliminary Report on The Sources of Ireland's Banking Crisis', Regling and Watson (2010) outlined how macroeconomic factors coupled with home-grown elements were to blame for the boom, and how these factors could have been mitigated through tighter regulation and counter-cyclical policies (Regling and Watson, 2010, p. 5). Another report on 'The Irish Banking Crisis Regulatory and Financial Stability Policy 2003-2008 ' by Central Bank Governor Patrick Honohan (2010), placed blame at the feet of the directors and senior managers of the Irish banks, as well as

identifying a failure on the part of the auditors and regulators of the industry (Honohan, 2010, p. 7). These reports have been accompanied by a myriad of academic and business reports attempting to identify what went wrong, who was to blame, and how can it be prevented from happening again.

In his 1986 book, 'Stabilizing an Unstable Economy', Hyman P. Minsky put forward a hypothesis that all complex capitalist economies are inherently unstable. Following the 2008 global financial crisis, there has been much renewed interest in his work and that of his supporters, especially noted historical economists Charles P. Kindleberger and Robert Z. Aliber, and their work on the history of financial instability and crises. However, to date, **the majority of this work, like Minsky's own,** has been concentrated on the US (Rapp, 2009; Vercelli, 2009) with others looking at the global crisis as a whole (Rosser, Rosser and Gallegati, 2012; Whalen, 2008 and 2009). The sole application of their work in Ireland was limited to the corporate **governance failures of Anglo Irish Bank (O'Sullivan and Kinsella, 2011)**. Therefore, the objective of the Dissertation is to analyse and evaluate the Irish property boom and bust cycle of the late twentieth and early twenty-first centuries through application of the Kindleberger-Aliber-Minsky (**hereinafter "KAM"**) model.

1.3 Approach to the Research

The Dissertation will investigate and evaluated the Irish property bubble through the primary research method of interview. Three research interviews were carried out with experts in the areas of property economics and banking. The interviews were based on a single, real-life case study, the Irish property bubble. The findings from the interviews were interpreted and related back to the financial theory and context in the Literature Review chapter in order that conclusions and recommendations could be made. These conclusions and recommendations will answer the research questions discussed in the Research Methodology chapter.

1.4 Structure and Organisation of the Dissertation

The following chapter is the Literature Review chapter. This chapter is structured into eight sections. Sections one, two and three relate to the macroeconomic theory surrounding financial instability and asset price bubbles. The purpose of this is to give the reader a macroeconomic theoretical understanding of the core subject of the Dissertation. The following five sections of the Literature Review chapter discuss the academic literature on the Irish property bubble. This discussion is structured in a manner to match the five stages of an asset price bubble, as outlined in the KAM Model. The purpose of this is to enable the reader to think about the events and developments in Ireland during the research period in line with the KAM Model.

Chapter three is the Research Methodology chapter. Using the six-stage Research Onion model set out by Saunders, Lewis and Thornhill (2012), the Dissertation will outline the process by which the research was carried out, as well as identifying ethical concerns, possible biases, along with practical, reliability and validity issues. Chapter four is the Research Findings chapter where the core findings from the research interviews will be set out.

Chapter five is the Research Conclusion chapter. In this chapter the findings outline in chapter four will be critically discussed, evaluated and analysed. This chapter will also include research conclusions, and recommendations on policy and on areas for further investigation. Chapter six is the Reflective Report. Within this chapter the learning process of the researcher will be discussed with respect to existing theory and to the experiences of the researcher in the process of completing the Dissertation. Areas for future learning and development will also be discussed in this chapter.

1.5 Scope and Limitation of the Research

There are several factors that restricted the breadth and depth of the research. As discussed further in the Research Methodology chapter, given the tight time frame

involved in the Dissertation and the complexity of the subject matter, the primary research was limited to three in-depth interviews. As such, the views of the research participants may not fully represent every view held on this subject.

The Dissertation is limited to the experiences of Ireland and its property bubble during the period from the 1990s up until the late 2000s (hereinafter "the research period"). The experience of other countries and their asset price bubbles may be alluded to in the Literature Review or Findings chapters, but no in-depth investigations of these other asset price bubbles were carried out.

1.6 Contributions of the Study

As outlined above, there has been no discussion or exploration of the Irish property bubble as a whole using the KAM Model. The Dissertation fills this gap while also shedding light on new areas for investigation and policy development.

1.7 Intended Recipients of the Research

The primary recipients for the Dissertation will be academics, researchers and students in the fields of economics, banking, and finance in Ireland. However, the Dissertation will also have application in a European perspective. In respect of developing policy and procedure, the Dissertation will also have an application in the banking industry. Government agencies such as the Financial Regulator and the Central Bank of Ireland, may also find the Dissertation of interest.

1.8 Suitability of the Researcher

The researcher has an Honours Degree in Economics and Politics from University College Dublin, and has completed the Master in Business Administration (MBA) in Finance programme at Dublin Business School. The researcher has worked in an international financial institution for the previous six and a half years. In that time, the researcher has experienced both the boom and the bust elements of the Irish property market from the perspective of an individual and as a professional. The

researcher currently manages a portfolio of distressed customers and property assets, which has led to an increase in personal and professional interest in the subject.

Chapter 2 - Literature Review

2.1 Theory - Minsky's Financial Instability Hypothesis

Standard economic theory – neoclassical synthesis - states that the economy is self-sustaining and equilibrium-seeking (Minsky, 1992, p.1), where instability is caused by external factors only (Minsky, 2008, p.114). This theory is criticised by Minsky as it does not admit that internal instability can exist (Minsky, 2008, p.109) even though financial crises have been occurring around the world throughout the last few centuries. In order to deal with the issue of endogenous instability, Hyman Minsky put forward the *Financial Instability Hypothesis* to explain how and why financial crises occur, and why more frequently in the modern financial era. The foundation of **the hypothesis is that the economy in question is capitalist in nature with "expensive capital assets and a complex, sophisticated financial system"** (Minsky, 1992, p.2).

Central to this hypothesis, Minsky identified three types of financing positions in the economy based on their income and ability to service debt; hedge; speculative; and Ponzi (Minsky, 2008, p.230). A hedge financed firm has sufficient operational income to service both the principal and interest on its debt; a speculative financed firm only has sufficient operational income to service the interest portion, and will require new lending or rolling-over of debt in order to meet the principal portion of existing indebtedness; and a Ponzi financed firm has operational income insufficient to meet either the interest or principal portions of maturing debt, and will require increased debt or the sale of assets to meet its obligations (Minsky, 2008, p.230; Kindleberger and Aliber, 2011, p.29; O'Sullivan and Kinsella, 2011, p.345).

Minsky argued that the combination of hedge, speculative and Ponzi finance in an economy is indicative of how stable or unstable the economy will be. The more speculative and Ponzi finance in the market, the more unstable the economy (Minsky, 2008, p.232). As such, all economies, no matter how stable, are inherently unstable due to their capitalist nature. As hedge financed firms become speculative

financed firms, due to a slowdown in the economy, the previously speculative financed firms turn into Ponzi financed firms (Kindleberger and Aliber, 2011, p.29).

2.2 Theory - The Kindleberger-Aliber-Minsky Model

To complement the *Financial Instability Hypothesis*, Minsky argued that a typical asset price bubble consists of five stages; displacement; boom; euphoria; profit taking; and, finally, panic (Minsky, 2008; Kindleberger and Aliber, 2011; Rapp, 2009; and O'Sullivan and Kinsella, 2011, p.345). *Displacement* can refer to any single event, any series of events, or any innovations that shift the expectations of lenders and investors (O'Sullivan and Kinsella, 2011, p.345). Kindleberger and Aliber (2011) argue that a displacement is an "exogenous shock to the macroeconomic system" (Kindleberger and Aliber, 2011, p.27) but the authors provide no limitations as to what constitutes an 'exogenous shock'. One could argue that the 'macroeconomic system' is a very broad, all-encompassing term which could include innovations in technology and changes in financial regulation. Therefore, the Dissertation argues that displacement can be endogenous as well as exogenous.

The *boom phase* is fuelled by an expansion in credit available (Kindleberger and Aliber, 2011, p.28). This expansion is pro-cyclical and grows as economic activity increases. It is accompanied by a reduction in the risk averseness of lenders who are now more willing to extend credit on previously risky investments (Kindleberger and Aliber, 2011, p.26 and 27, O'Sullivan and Kinsella, 2011, p.345), and are now more worried about losing market share to competitors (Kindleberger and Aliber, 2011, p.30). The following two stages, euphoria and profit-taking, can run simultaneously. *Euphoria* develops driven by a "positive feedback...as the increase in investment leads to increases in the growth rate that in turn includes additional investment" (Kindleberger and Aliber, 2011, p.29). This euphoria increases optimism and expectations in economic growth, and the possibility of profit with increased speculation for capital gains characterises the market. This leads to a *mania* or *bubble* which is "any significant increase in the price of an asset of a security or a

commodity that cannot be explained by the 'fundamentals'" (Kindleberger and Aliber, 2011, p.30). The authors do no attempt to define *fundamentals*, which could be regarded as a weakness in the model. However, given that their model evaluates assets of differing characteristics from property to tulips, a comprehensive definition of fundamentals would not be realistic. At this stage, the *profit-taking* phase, the asset or commodity is traded throughout the economy at ever increasing prices.

The final stage of Minsky's model is *panic*, which may be a reassessment of risk and behaviour by investors and lenders. This can be triggered by any number of factors, including "failure of a bank or of a firm, the revelation of a swindle or defalcation by an investor ... or a sharp fall in the price of a security or a commodity" (Kindleberger and Aliber, 2011, p. 32). Now buyers become wary, and sellers become desperate to liquidate their positions before the price of the asset falls any further; "the race into money may turn into a stampede" (Kindleberger and Aliber, 2011, p. 32). The crash has begun.

2.3 Theory - Mishkin's Five Factor Framework

Mishkin (1992) outlines two camps when it comes to the literature on financial crises. In one corner there are the monetarists who link financial crises with banking crises, as the banks can affect the money supply and therefore economic activity (Mishkin, 1992, p.116). Mishkin (1992) regards this unbreakable link as a weakness of the monetarists' view as it is extremely narrow (Mishkin, 1992, p.116). In the other corner Mishkin (1992) places Kindleberger and Minsky (presumably Aliber now included). Mishkin argues that their views of financial crises are comprehensive, encompassing "sharp declines in asset prices, failures of both large financial and non-financial firms, deflations or disinflations, disruptions in foreign exchange markets, or some combination of all of these" (Mishkin, 1992, p.116). Mishkin points out a weakness inherent in this definition in that as it is too broad, does not thoroughly define a crisis, and is used to justify government intervention (Mishkin, 1992, p.116). Mishkin (1992) provides a definition of a financial crisis as; "a

disruption to financial markets in which adverse selection and moral hazard problems become much worse, so that financial markets are unable to efficiently channel funds to those who have the most productive **investment opportunities**" (Mishkin, 1992, p.115).

Mishkin (1992) goes on to argue that there are five factors that increase the effect of adverse selection and moral hazard. Firstly, interest rate hikes increase adverse selection as riskier borrowers will accept the higher rate, and the lender will not be able to distinguish between the riskier and the safer borrowers (Mishkin, 1992, p.118). **Secondly, stock market declines reduce a company's value and wealth,** making them more susceptible to default. It also makes lender more reluctant to lend, thus constraining economic activity (Mishkin, 1992, p.119). Mishkin (1992) highlights an increase in uncertainty as the third factor. Such uncertainty, like stock market crash, makes it more difficult to identify bad or riskier borrowers. This increase in adverse selection forces lenders to cut back on lending, investment and economic activity (Mishkin, 1992, p.119). The fourth factor is bank panics. Mishkin (1992) explains that as banks are crucial to the activity of an economy as they enable productive investment, any panic or loss of confidence by a bank will directly lead to a decline in investment and economic activity (Mishkin, 1992, p.121). The fifth and final factor is unforeseen price declines. As Mishkin (1992) succinctly put it: **"A sharp drop in the price level... causes a substantial decline in real net worth and an increase in adverse selection and moral hazard problems facing lenders"** (Mishkin, 1992, p.121).

In critically analysing Mishkin's (1992) five factors, one immediately notices a similarity in points two and five. Although Mishkin (1992) attempts to differentiate them by limiting the first to stock prices, both factors appear to have the exact same result. It could be argued that the fifth factor, unforeseen price declines, could encompass stock market declines. Also, in attempting to differentiate his definition from **that of Kindleberger and Minsky's,** which he argued was too broad to be a

useful definition, Mishkin (1992) goes on to outline a framework which incorporates, arguably, any factor that could possibly lead to adverse selection and/or moral hazard. The definition, in the **Dissertation's opinion, is almost as broad as that of** Kindleberger or Minsky. However, one thing that is certain, whether using **Mishkin's framework, Minsky's Hypothesis**, or the KAM model, any and all of the above can be used to accurately describe the modern financial crisis.

2.4 Leading up to the Bubble - Ireland's Displacement?

In 1999 Ireland became one of the original eleven member states of the newly formed Economic and Monetary Union of the European Union (EMU). Membership of EMU **"directly contributed to the boom-bust cycle in Ireland"** (Lane, 2011, p.25) and **"represented an asymmetric shock"** (Lane, 2011, p.26) to Ireland as it led to a significant reduction in interest rates triggering an increase in spending (Honohan, 2009, p.210; Nyberg, 2011, p.2). This development gave Irish banks, investors and consumers access to a level of funds to which they had previously not been accustomed (Regling and Watson, 2010, p.5; Duffy, 2010, p.113). Ireland is a small economy relative to EMU, and as FitzGerald et al (2000) explained,

"reduction in the risk premia attaching to smaller currencies, such as the Irish pound, means that such economies will experience lower interest rates in the medium term and, therefore, higher levels of investment than would be possible outside the Union" (FitzGerald et al, 2000, p.1).

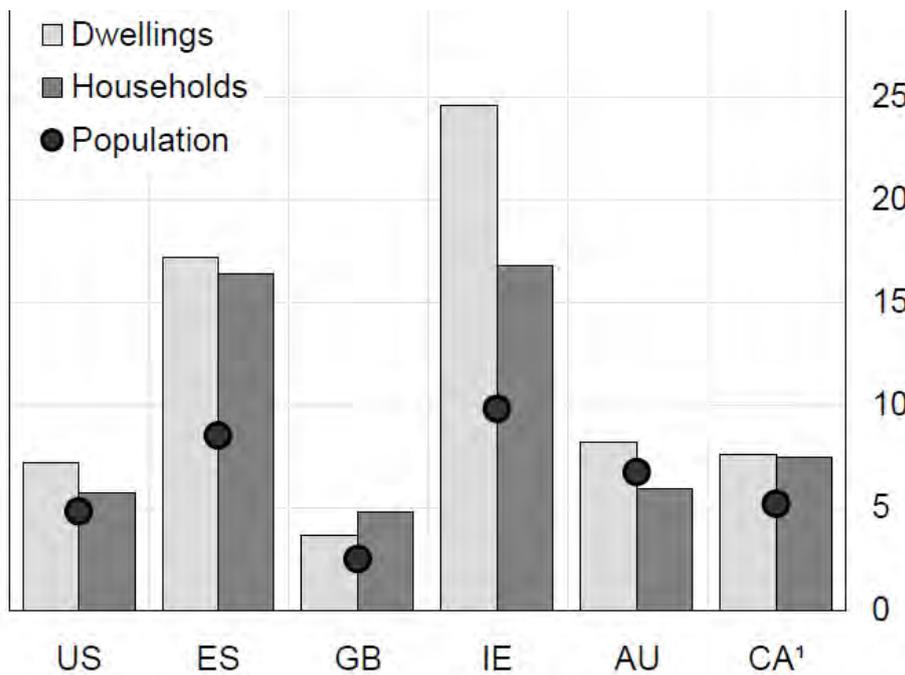
This changed the situation with respect to householders and the cost of capital as nominal interest rates converged across EMU (Conefrey and Fitzgerald, 2009, p.3 and 13). An additional factor identified in the literature as being a factor in the lead-up to the bubble, and the subsequent banking crisis, is the generally stable and benign international macroeconomic conditions that had existed for an extended **period of time. As commented by Regling and Watson (2010), "from the late 1990s onwards, the world economy was characterised by relative high growth, low headline**

inflation, strong liquidity creation, and low interest rates” (Regling and Watson, 2010, p.11). This period was also characterised by an expansion in the amount of foreign direct investment (FDI) into Ireland (Lane, 2011, p.4). In addition to external **factors, the Irish government undertook a “neo-liberal and market orientated agenda” (O’Sullivan and Kinsella, 2011, p.345) following a pro-business platform from as early as 1987 (Lane, 2011, p.4; O’Sullivan and Kennedy, 2010, p.230).**

As per O’Sullivan and Kinsella (2011), *displacement* in the context of Ireland can be traced back to as early as 1997 (O’Sullivan and Kinsella, 2011, p.345). However, it is argued by Lane (2011) that this period of economic growth began as early as 1994 with Ireland rapidly converging with the rest of Europe after years of lagging behind (Lane, 2011, p. 3 and 4). This convergence has been attributed to utilisation of a more educated population with a higher tendency to participate in the non-agricultural labour market (Honohan and Walsh, 2002, p.4). Lane (2011) also cites an increase in 2nd and 3rd level education participation rates during the 1970s and 1980s as a cause of the convergence (Lane, 2011, p4.).

Demographic change, such as population growth, and long-term income growth are also highlighted as two of the central factors driving change in relative prices (Conefrey and Fitzgerald, 2009, p.5) and determining the desired level of sustainable construction (Ellis, 2008, p.2). In discussing the housing construction boom in the US, Ellis (2008) points to Ireland as the country with the largest gap between growth in the housing stock and the number of households;

Figure 2 Percentage Cumulative Growth in Housing Construction 2001 - 2006



Source: Ellis (2008, p.4) (IE = Ireland)

Ellis (2008) puts this partial down to Ireland’s housing stock catching up with the number of households, which also fell during the same period (Ellis, 2008, p.3). Prior to the bubble Ireland had experienced a robust and extended decade of expansion, “when the economy caught up with and surpassed average EU living standards” (Regling and Watson, 2010, p.5). It should be noted that banks are not regarded as being vital to the economic growth that occurred in Ireland during the Celtic Tiger period (Honohan, 2009, p. 209).

In respect of Ireland’s property market, it has been stated that depressed property values pre-1994, along with an increase in income levels, explains the original growth in the mid-to-late 1990s (Lane, 2011, p.5). According to Kelly (2009), Ireland’s housing construction market accounted for four per cent to six per cent of GNP until 1997, in line with any industrial economy (Kelly, 2009, p.13). From 1999-2002 investment in the domestic property market experienced a marked increase “based on solid demand and supply fundamentals - increasing population, rising real

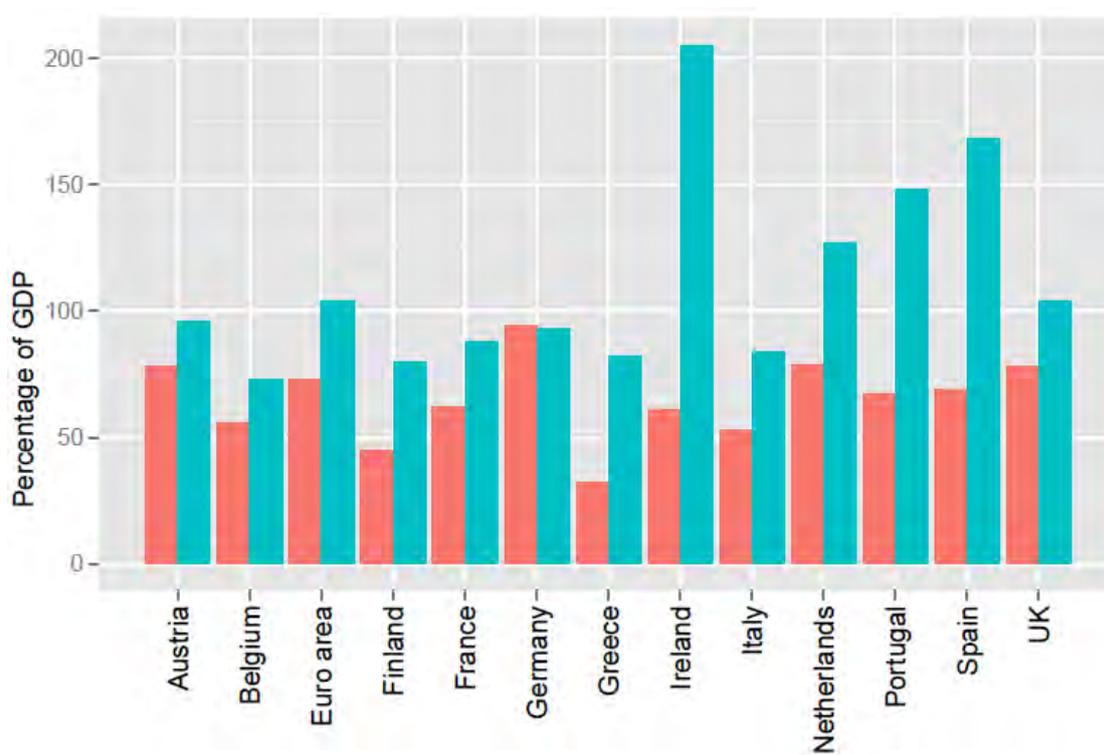
wages and property price appreciation” (O’Sullivan and Kinsella, 2011, p.346). In conclusion, the period from the mid-1990s to the mid-2000s can be regarded as a “decade of real, competitiveness driven growth” (Kelly, 2009, p.24). These factors are coupled with the Irish populations’ “strong and pervasive” inclination for property as a store of wealth (Regling and Watson, 2010, p.5). For example, homeownership rates in 2000 - 2001 in Ireland were in the region of 75 per cent, while in the UK and Germany they were roughly 70 per cent and 40 per cent respectively (Conefrey and Fitzgerald, 2009, p.8). This shows the particular importance of the property market to Irish society as a whole.

2.5 The ‘Boom Years’ 2003-2007

The Celtic Tiger, it has been argued, ended around 2000 (Honohan, 2009, p.209) and was over when the global recession of 2001 hit following the events of the 11th September 2001. However, despite this recession, a period of economic prosperity began in 2003 (Lane, 2011, p.6), driven by a boom in construction activity (Kelly, 2010; Lane, 2011, p.6). As noted by Kelly (2010) “competitiveness no longer mattered...the road to riches lay in selling houses to each other”. To do this an expansion of credit was required. Kindleberger and Aliber (2011) point out that almost all manias are related to some level of sharp increase in the levels of credit being made available to a certain group of borrowers (Kindleberger and Aliber, 2011, p.62).

In the case of Ireland, many unskilled and inexperienced individuals believed that, through borrowing high levels of cheap credit, they could become property developer tycoons. The economy “segued from one driven by competitiveness in the 1990s to one driven by a credit fuelled bubble in the 2000s” (Kelly, 2009, p.6) on the backs of the banks who more than tripled non-financial sector lending from 60 per cent of GNP in 1997 to 200 per cent of GNP in 2008.

Figure 3 Lending to households & non-financial firms as a % of GDP in 1997 and 2008



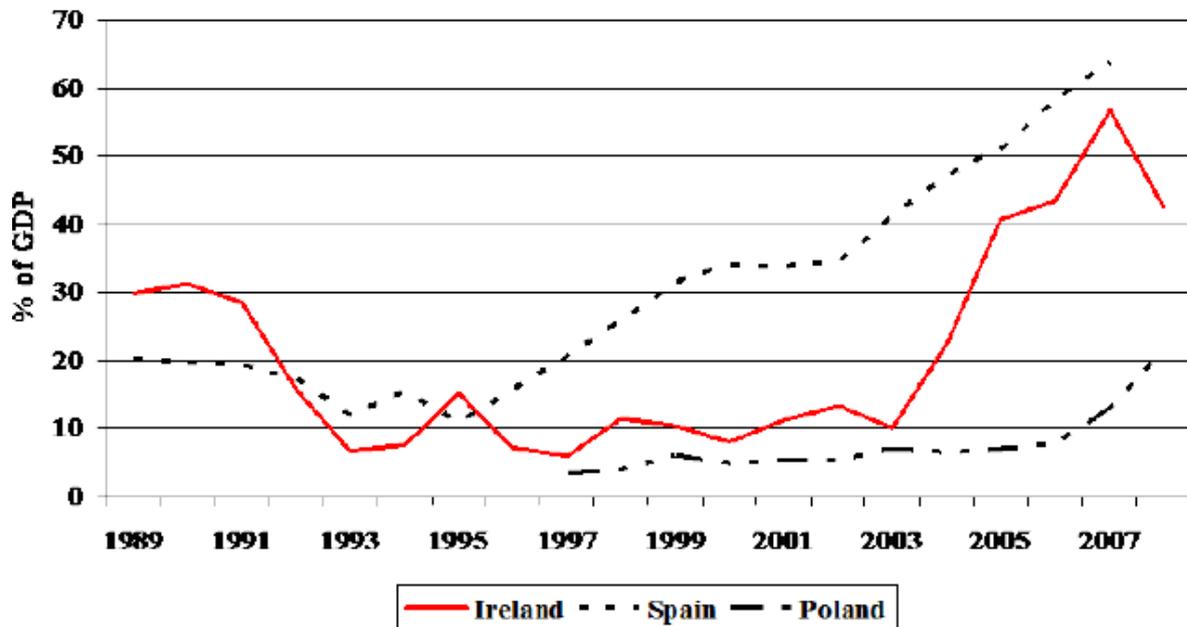
Source: Kelly (2009, p. 2) - Red = 1997; Turquoise = 2008

Accustomed to a growth level in the region of six per cent to seven per cent, the banks were blinkered to the size of the investment bubble that they were helping create (Kelly, 2009, p.24). This credit funded expansion which in addition to bottled-up demand for property, resulted in the rapid enlargement in investment in the property market. This included not only an increase to the household sector, but also **to a limited cadre of property developers (Lane, 2011, p.7; O’Sullivan and Kinsella, 2011, p.346)**. As stated by Kelly (2009) and Lane (2011), the aggressive lending was fuelled in the main by cheap credit from international wholesale and inter-bank markets (Lane, 2011, p.8). By 2008, this accounted for over half of bank lending in comparison to 1997 when the banks were almost 100 per cent funded by deposits (Kelly, 2009, p.4 and 6).

This expansion was created by Irish banks borrowing significant levels of funding from the international wholesale markets to finance the property boom, leading to a

sharp rise, since 2003, in net foreign liabilities of the Irish banking system (Conefrey and Fitzgerald, 2009, p.18).

Figure 4 Net Foreign Liabilities of Banking System, Ireland



Source: Conefrey and Fitzgerald (2009, p.17).

In addition,

“prior to the credit crisis it proved possible for banks to securitise mortgages and sell them on to the European market, reducing their exposure to the domestic market and raising additional funds to either finance more mortgage lending or investment in other assets” (Conefrey and Fitzgerald, 2009, p.18).

This is not purely an Irish phenomenon as Conefrey and FitzGerald (2009) point out. Since the end of the 20th century, reliance on the supply of mortgages from banks precipitated the housing booms in both Ireland and Spain (Conefrey and Fitzgerald, 2009, p.17). More troubling for Ireland is the fact that bubbles that are fuelled by credit and leverage have a tendency to be the most trouble. Take for instance the

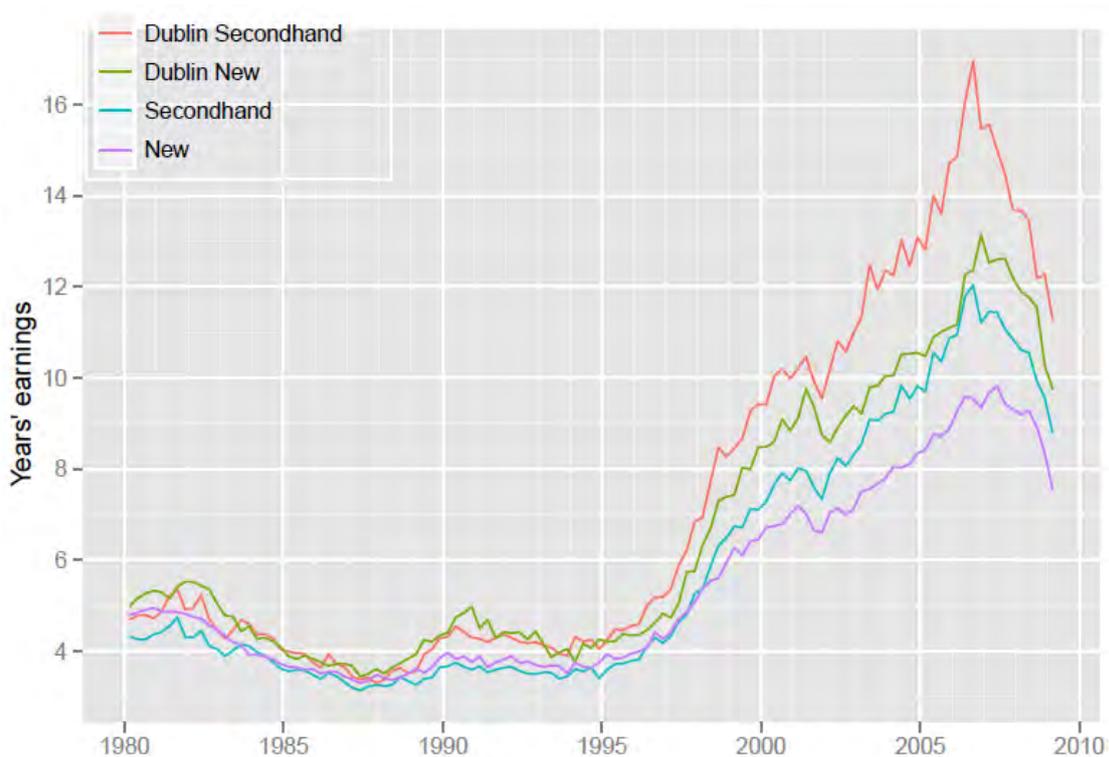
example of the less-leveraged dot.com bubble bursting and its comparatively mild recession (Crowe et al, 2011b, p.4).

In discussing the US mortgage meltdown of the first decade of the 21st century, Ellis (2008) argues that the demand in the US housing market was met with over-supply that became excess supply once their bubble burst (Ellis, 2008, p.1). In Ireland, a similar yet different scenario played out where the lack of supply and an expansion in available credit led to an unsurprising increase in the price of property (Kelly, 2009, p.9) increasing by over 64 per cent **from 2002 to 2006 (O'Sullivan and Kinsella, 2011, p. 347)**. Kelly (2009) argues that prices increase relative to the size of the mortgages, in a rising market, as property supply is fixed in the short-term (Kelly, 2009, p.10). This may have been the situation in Ireland, but Crowe et al (2011b) contends that:

"Boom-bust cycles are an intrinsic feature of real estate markets given the delay in supply response to demand shocks and the slow pace of price discovery due to opaque and infrequent trades as well as illiquidity owing to high transaction costs and the virtual impossibility of short sales" (Crowe et al, 2011b, p. 7).

It is clear, however, that the bubble that grew in Ireland during the period in question was not simply a natural feature of the real estate market in an advanced, capitalist economy. In the US sub-prime market property price increases were outpacing the increase in household income (Rapp, 2009, p. 89). A similar phenomenon was noted in Ireland where the average first-time buyer mortgage and the average house price equated to eight and ten times the average salary, respectively, up from three times and four times respectively in 1995 (Kelly, 2010).

Figure 5 Irish house prices relative to average earnings, 1980 - 2009



Source: Kelly (2009, p.8)

2.6 The 'Bubble' - Irish Euphoria?

In *Manias, Panics, and Crashes* (2011) the authors use skyscrapers as a metaphor and an indicator of the euphoria surrounding asset price bubbles (Kindleberger and Aliber, 2011, p. 107). There are, arguably, no skyscrapers in Ireland, but in September 2008 *The Elysian* building in Cork City was completed. At 71 metres, the tower is the tallest building in the Republic. Due to low occupancy rates, the Irish Times newspaper, in October 2009, likened the building to the abandoned vessel *The Mary Celeste* (The Irish Times, 2009). As Kindleberger and Aliber (2011) state "The surge in wealth in a bubble leads to economic behaviour that would appear as exceptional - the squandering of wealth - in normal times" (Kindleberger and Aliber, 2011, p. 108). This behaviour was clearly evident in Ireland during the research period.

Behavioural economist Dr Pete Lunn (2011) argues that analysis must cover the phenomenon of why so many misjudgements and poor decisions were made by so many individuals (Lunn, 2011, p.4). Although his comments relate only to the banking crisis, the same approach should also be taken when looking at the bubble-bust cycle in the Irish property market. Lunn (2011) goes on to explain that, as evidenced in controlled experiments, emotions influence economic decisions and that anticipation of emotions, such as regret or disillusionment, can have a significant effect on choices (Lunn, 2011, p.5). This, however, would lead one to believe that asset price bubbles should be prevented as the participants would anticipate a future state when their decisions are proved incorrect. This situation did obviously not arise in the Irish context.

The Nyberg Report (2011) specifically found examples of *herding* and *groupthink* amongst the banking fraternity and the regulatory bodies (Nyberg, 2011). The Nyberg Report (2011) defines *herding* as the “willingness of investors and banks to simultaneously invest in, lend to and own the same type of assets, accompanied by insufficient information gathering and processing...commonly referred to as a bandwagon effect” (Nyberg, 2011, p.7 and 8). *Groupthink* is different, being where “consensus forms without serious consideration of consequences or alternatives, often under overt or imaginary social pressure” and can lead to herding (Nyberg, 2011, p.8). In discussing the Nyberg Report (2011), Lunn describes *herding* and *groupthink* as belonging to “a category of phenomena that describe how our individual decisions gravitate towards the decisions of others around us, potentially magnifying mistakes” (Lunn, 2011, p.2). Herding is also identified by Kindleberger and Aliber (2011) as leading to a bubble (Kindleberger and Aliber, 2011, p.115). The work by Nyberg (2011) and Dr Lunn (2011) indicates that there was a significant psychological factor at play during the bubble. This appears to be evidence of the hysteria or mania that may have taken hold in Ireland, as it has done in so many bubbles in the past.

Another psychological influence on the bubble was the persistent media coverage of the property market, which the Nyberg Report (2011) argues reduced bank and borrower risk awareness (Nyberg, 2011, p.ii). This blanket approach to real estate, where Government, the banks, and the media were all singing the praises of the property ladder, left little room for any naysayers. In addition, Lunn states that the possibility of a property crash was grossly miscalculated by the experts and the media (Lunn, 2011, p.3). With this view pervasive in Irish society at the time, it would have been almost impossible for the public to rail against it. The Nyberg Report (2011) highlights this point, saying;

“that there may have been a strong belief in Ireland that contrarians, non-team players, fractious observers and whistleblowers would be informally (though sometimes even publicly) sanctioned or ignored, regardless of the quality of their analysis or their place in organisations” (Nyberg, 2011, p.97).

This coupled with a wide spread view, up until the eleventh hour, that there would be, at worst, a *soft landing*, is evidence of a **“national speculative mania”** in Ireland at the time (Nyberg, 2011, p.94). This phenomenon is not specific to Ireland, with Shiratsuka (2005), writing on the Japanese asset price bubble in the 1980s, arguing that optimism, not fundamentals, maintained Japanese high prices (Shiratsuka, 2005, p.42). When the Irish bubble finally burst, no-one involved rushed to take their share in the blame even though almost every section of Irish society had gotten sucked into the frenzy (Nyberg, 2011, p.95). This lack of contrarian views at the time has now swung around where Ireland is experiencing what Lunn (2011) describes as a **“period of extreme hindsight bias”** where **“our tendency to perceive an event that has occurred as more predictable than it actually was, and to overestimate the degree to which we actually did predict it”** (Lunn, 2011, p.9). The Dissertation contends that such an extreme swing in views is evidence of a temporary euphoria or mania that gripped Ireland during the property bubble period.

However, it could be argued, as Kindleberger and Aliber (2011) do, that warnings from government and authorities have little effect on bubbles, especially when annual rises of 20 to 30 per cent in asset prices are the norm (Kindleberger and Aliber, 2011, p.88). The authors cite several instances over many decades where government statements had limited impact, including the *Panic of 1825* in England, the *Wall Street Crash*, and what Federal Reserve Chairman Alan Greenspan referred to as '*irrational exuberance*' in the late-1990s in the US (Kindleberger and Aliber, 2011, p.89-90). The authors highlight the issue of timing when it comes to **government and authorities forewarnings, stating that to be effective "they need to provide their cautionary statements early enough to forestall some of the expenses of the euphoric period and late enough so the statements are credible"** (Kindleberger and Aliber, 2011, p.90). In such a delicate situation with so much at stake - including re-election - governments are unlikely to risk dampening economic activity or causing the panic themselves.

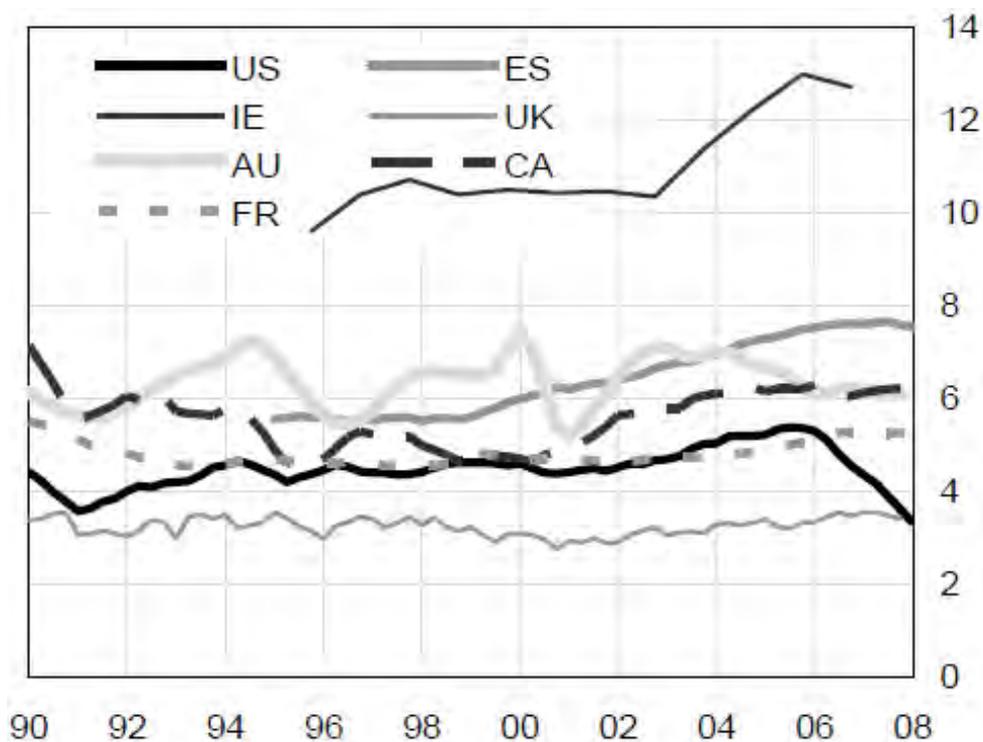
Innovation and adaptation by the lending institutions was met with little or no response by the authorities or the Financial Regulator. As Regling and Watson (2010) **claim, "Fiscal policy, bank governance and financial supervision left the economy vulnerable to a deep crisis, with costly and extended social fallout"** (Regling and Watson, 2010, p.5). The light-touch regulation left banks free to chase profits by taking larger and riskier bets on commercial property in particular, which in turn lowered the credit standards in certain banks (Nyberg, 2011, p. ii). Lending standards were also circumvented as banks chased growth through a single strategy focussed almost entirely on the property sector (Nyberg, 2011, p.90).

2.7 Ireland Gets Rich

The similarity between the Irish property and the US sub-prime market is striking. As noted by Rapp (2009) aggressive and predatory lending was evident in the US, and such practices are a central element of the KAM model (Rapp, 2009, p.89). These practices were also identified in Ireland where increases in easy credit were

accompanied by a lowering of lending standards (Kelly, 2009, p.11; Lane, 2011, p.27; Honohan, 2009, p.217). This period was also characterised by the expansion and entry into the Irish market of UK and international lenders, such as Bank of Scotland Ireland, Rabobank and Danske Bank, all looking to obtain a share of the profits available. This influx of foreign banks into the Irish market was triggered by a rapid increase in house prices and a rush of investment into the construction sector in Ireland.

Figure 6 Housing Construction as a percentage of GDP (IE = Ireland)



(Ellis, 2008, p.2)

One development in the lending institutions at this time was the innovation in mortgages, with the introduction of tracker mortgages, the extension of mortgage terms, and the increase of loan-to-value (**hereinafter "LTV"**) ratios (Duffy, 2012, p.3). In particular Crowe et al (2011a) and Duffy (2012) both cite LTV ratio limits as a macroprudential tool for inhibiting vulnerabilities for borrowers as it provides more protection from negative equity should there be a real estate property drop (Crowe et al, 2011a, p.19; Duffy, 2012, p.2). Crowe et al (2011a) goes on to say that IMF

research established that 71 per cent is the average LTV ratio across a number of countries (Crowe et al, 2011a, p.6), yet according to Duffy (2012), 25 per cent of first-time buyers in Ireland in 2007 and 2008 had 100 per cent mortgages, having risen abruptly since 2005 (Duffy, 2012, p.3 and 5). This shows how vulnerable many Irish property owners were to any level of asset price drop.

Another factor in the euphoria that seemed to have taken hold in Ireland at the time was the actions of Anglo Irish Bank. **Described as "a genuinely rogue bank" (Kelly, 2009, p.23)**, its aggressive and profit-seeking model put pressure on the rest of the banking sector to follow suit. Honohan (2009) argues that a growth rate of 20 per cent or more per annum is an indicator that a bank is overexposed, and confirms that the repeated hurdling of this limit by Irish banks in the years preceding 2007 may have caused sector-wide weakening through irresponsible lending (Honohan, **2009, p.217**; O'Sullivan and Kinsella, 2011, p.347). However, Anglo Irish Bank cannot be blamed solely for all the excesses in which the lending institutions in Ireland engaged. Regling and Watson (2010) found that many banks in Ireland **partook in risky endeavours as, "Credit risk controls failed to prevent severe concentrations in lending on property...as well as high exposures to individual borrowers and a serious overdependence on wholesale funding"** (Regling and Watson, 2010, p.6). However, as pointed out by Conefrey and FitzGerald (2009), the Irish banks were purely overexposed to risky domestic lending for property development with no exposure to toxic US assets (Conefrey and Fitzgerald, 2009, p.25).

It has been argued that there was a critical failure at this time on the part of the Central Bank and the government to adequately regulate against systemic macroeconomic risk factors (Kelly, 2009, p.22; Lane, 2011, p.28; Regling and Watson, 2010, p.38). The increase in credit available and the lowering of lending standards created a feedback loop which led to a vicious cycle whereby larger and easier to avail of mortgages pushed up the value of property, which in turn increased

the size and availability of subsequent lending (Kelly, 2009, p. 2; Lane, 2011, p. 9). In conjunction with this cycle - which was based on the level of credit available - **there was also a "self-reinforcing spiral" (Nyberg, 2011, p.iii) where the price of property led to increases in speculative investment in property, which in turn further increased prices, in a temporary upward motion (Nyberg, 2011, p.iii).**

Government policy prior to and during this period also comes under fire in the literature. **Regling and Watson (2010) write that, "Fiscal policy heightened the vulnerability of the economy"**, and argue that the Government should have engaged in counter-cyclical budgeting in order to lessen the effects of any bubble (Regling and Watson, 2010, p.5). At a time when the economy was booming - in particular the property sector - the government instituted tax policies that placed increasing reliance on this one sector, all the while narrowing the tax base (Regling and Watson, 2010, p.5). The Government became over-reliant on this increasing source of revenue, in particular stamp duty, and less reliant on more reliable sources, such as personal income taxes (Kanda, 2010, p.5). This shift left the economy extremely susceptible to any shock to the property sector, and when the bottom fell out of the real estate market, a large hole appeared in public finances (Kanda, 2010, p.5).

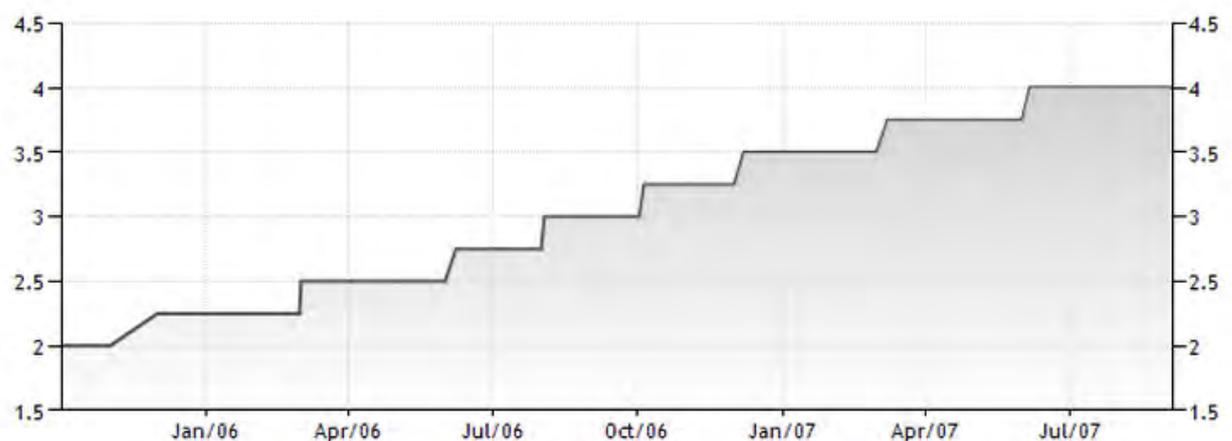
2.8 The Bursting of the Bubble

By mid-2007 unsold properties were beginning to accumulate and it was clear that the property sector was in trouble (Kelly, 2009, p. 3), reaching its zenith in either Q3 2006 (Kelly, 2009, p. 3; Lane, 2011, p. 10) or early-2007 according to the *permanent tsb* house price index (Duffy, 2010, p.113). This was followed by commercial property prices hitting their highest point roughly one year later (Kelly, 2009, p. 9). At this point there was a significant risk of a severe drop in house prices (Lane, 2011, p. 10) with Kelly (2007) maintaining that **"real house prices typically give up about 70 per cent of their rise in the subsequent fall" (Kelly, 2007, p. 9).** Buyer-confidence in the possibility of future capital gains was lost, and purchases

were slowing down (Conefrey and Fitzgerald, 2009, p. 25). The stage was set for a crash; and by October 2009 prices had fallen by 27 per cent (Duffy, 2010, p. 109).

The initial trigger of this decline may be traced back to the increase of Eurozone interest rates from 2 per cent in late 2005 to 4 per cent in June 2007. A development such as this triggers a reassessment of risks by lenders and investors (Rapp, 2009, p. 89). This situation was exacerbated in 2007 by global macroeconomic conditions, and by early 2008 funding from the international wholesale markets had dried up, causing a further reassessment of risk and retreat from the property market by investors (Lane, 2011, p. 10).

Figure 7 Euro Area Interest Rates September 2005 – September 2007



Source: <http://www.tradingeconomics.com/euro-area/interest-rate>

This situation was further aggravated by the collapse of Lehman Brothers in September-2008 which effectively shut the door on international credit to Ireland (O’Sullivan and Kinsella, 2011, p. 348). What previously fuelled the bubble now fuelled the panic as banks became more conservative and restricted lending (Rapp, 2009, p. 89). The stage was now set for a panic;

“In a mirror image to the boom period, negative feedback mechanisms kicked in. Banks pulled in lending, which in turn amplified the downturn in the

property sector. The increase in bad loans further curtailed the supply of **credit by Irish banks” (Lane, 2011, p. 11).**

It has been identified in the literature that by this stage the Irish economy - and the financial sector in particular – had become over-reliant upon the construction **industry. As previously mentioned Ireland’s housing construction market made up** roughly four per cent to six per cent of GNP in the 1990s, but by the peak of the boom, the market made up 15 per cent of GNP with a further six per cent relating to other construction (Kelly, 2009, p. 1). As Conefrey and FitzGerald (2009) describe, the size of the construction sector differs vastly across the EU (Conefrey and FitzGerald, 2009, p.20). With respect to Ireland, the share of the economy relating to construction is much higher than the EU average, and by 2006 housing investment made up a record portion of GDP (Conefrey and FitzGerald, 2009, p.22). Accordingly, Ireland needed to allocate a large portion of its resources to the construction sector. This had the effect of increasing prices, profitability, and wages (Conefrey and FitzGerald, 2009, p.22).

This boom in construction created a situation where wages were driven up to uncompetitive levels by almost full employment, and the government became overly dependent on the tax revenues that the boom had produced (Kelly, 2009, p. 1). This over reliance on one sector created an environment conducive to the subsequent **banking crisis of 2008 (O’Sullivan and Kinsella, 2011, p. 349). As Shiratsuka (2005) explains,**

“During the bubble period, real estate was generally accepted as collateral.

However, if the profitability of businesses financed by secured loans is closely related to collateral value, such loans become practically unsecured since **profits and collateral value move in the same direction” (Shiratsuka, 2005, p.45).**

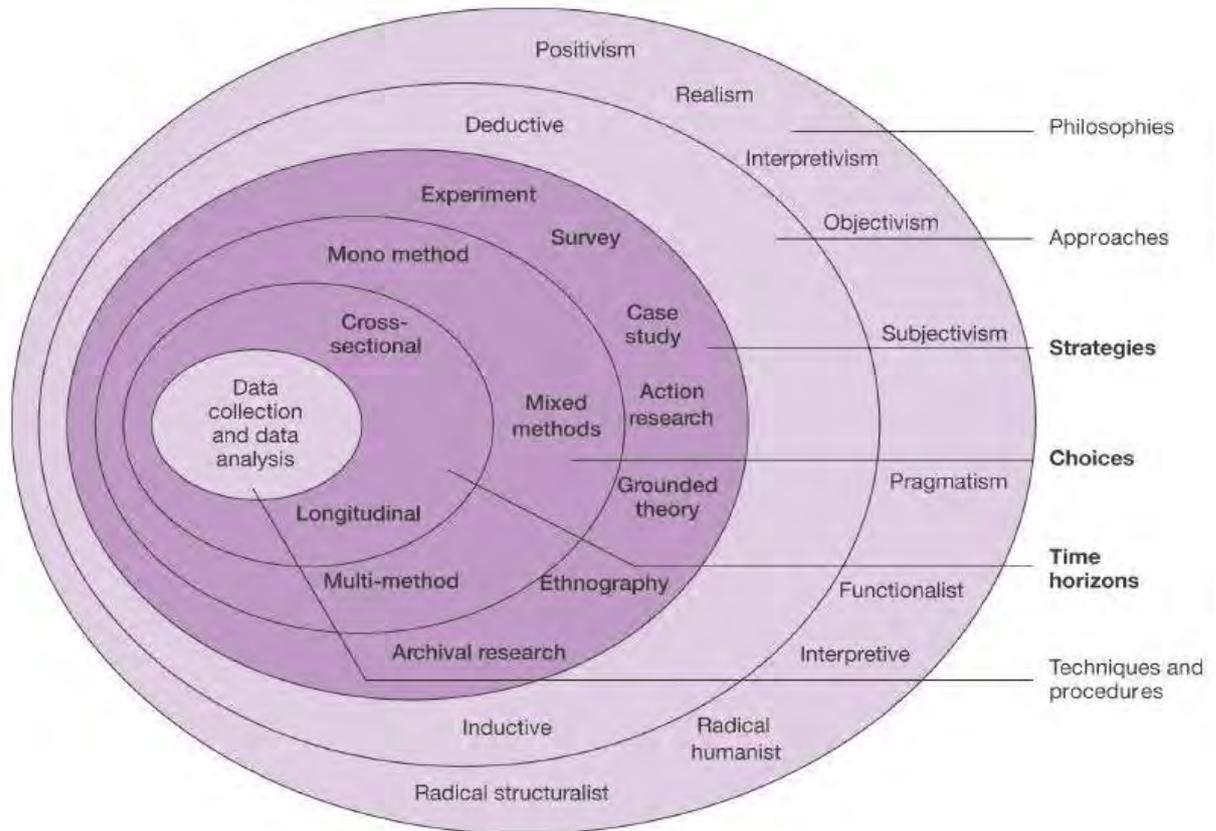
Although writing on Japan in the 1980s, this also applies to Ireland during the period in question. Unfortunately for Ireland, the deeper and more drawn out recessions in modern economies are those that correspond to a housing bubble bursting (Crowe et al, 2011b, p.6).

Chapter 3 - Research Methodology

3.1 Introduction

The research methodology used in the Dissertation followed the six-stage Research Onion model set out by Saunders, Lewis and Thornhill (2012).

Figure 8 The Research Onion



Source: Saunders, Lewis and Thornhill, 2012, p.128

3.2 Research Questions

The research achieved its stated objective by answering the following research questions;

1. How was the bubble in the Irish property market prototypical of an asset price bubble as per the KAM model of the business cycle?

This question was the central objective of the Dissertation, and was intended to focus the research to allow the Dissertation ascertain the conceptual and contextual information required to accomplish the research objective.

2. What was/were the core factor(s) that lead to the creation and sustaining of the bubble in the Irish property market?

By answering this question, the Dissertation gained an in-depth insight into the events, conditions and mind-set of the participants in the economy during the period in question.

3. What changes to the Irish property market could be implemented to prevent a future asset price bubble occurring?

By answering this question, the research met the research objective by making recommendations in the Conclusion chapter whose implementation will generate opportunities for future research in this field of study.

3.3 Research Philosophy

The prevailing question in research is 'why research?' with selection of a methodology imposing a philosophical answer (Holden and Lynch, 2004, p. 2).

Research philosophy, the first layer of the Research Onion, is based on assumptions and preconceptions that individuals have in respect of knowledge and how the world should be viewed (Saunders, Lewis and Thornhill, 2012, p. 128).

Epistemology is an assumption that is related to the nature of knowledge, how knowledge is accumulated (Holden and Lynch, 2004, p.5) and what is acceptable knowledge in a specific field of study (Saunders, Lewis and Thornhill, 2012, p.132).

The Dissertation undertook an interpretivism approach as the research involved social entities whose views and opinions were translated and construed into usable data. Interpretivism holds that constituents of the natural sciences are profoundly different from the elements of the social sciences (Bryman and Bell, 2011, p.16), and "emphasises the difference between conducting research among people rather than about objects" (Saunders, Lewis and Thornhill, 2012, p.137).

A further preconception, known as ontology, relates to the nature of reality (Saunders, Lewis and Thornhill, 2012, p.128) and whether social entities can be viewed objectively and independent of their participants, or whether these entities are affected by participants (Bryman and Bell, 2011, p.22). This latter position is described in the literature as subjectivism (Saunders, Lewis and Thornhill, 2012; Holden and Lynch, 2004) or constructivism (Bryman and Bell, 2011). The interpretive nature of the research necessitated the adoption of a subjective ontological approach.

3.4 Research Approach

The next layer of the Research Onion relates to the research approach. This approach can take the form of deduction; where a hypothesis is construed from a theory, tested, and then either rejected or confirmed, leading to a possible revision

of the underlying theory (Bryman and Bell, 2011, p.16). Alternatively, as with this research, an inductive approach can be adopted. In an inductive approach no theory is put forward, rather a hypothesis or several hypotheses are constructed based on an interpretive analysis of data that is observed and collected. In essence, the researcher **"infers the implications of his or her findings"** (Bryman and Bell, 2011, p.11). As Shah and Corley maintain **"what is important is that results are representative of the interpretations of those experiencing the phenomenon under study and that they embody a rigorous interpretation of the phenomenon such that plausible theory development is possible"** (Shah and Corley, 2006, p.1823).

This latter approach is more suited to research of social entities as it allows for an understanding of how society is interpreted by participants without prescribing causality to variables (Saunders, Lewis and Thornhill, 2012, p.146). As maintained by Eisenhardt and Graebner (2007) it is important to justify why an inductive approach is being adopted, and argue that a qualitative approach to research can **offer better "insight to complex social processes"** (Eisenhardt and Graebner, 2007, p.26). Given the complexity and importance of the Irish property market and wider economy, an inductive research approach was essential in unravelling the research problem and answering the research questions.

3.5 Research Choice

As per Bryman and Bell (2011) the three characteristics of qualitative research are; an inductive view of the relationship is used; interpretivism is chosen as the epistemological position; and a constructionist ontological position is taken (Bryman and Bell, 2011, p.386). The Dissertation sought to evaluate and gain a deeper understanding of the interaction of the participants in the Irish property market, and wider economy, in light of a conceptual framework on which future hypotheses or theories may be based. Therefore, in order to build up a picture of how social entities in the economy operate, a qualitative research methodology was required; **"Qualitative research studies participants' meanings and the relationships between**

them” (Saunders, Lewis and Thornhill, 2012, p.163). The methodological choice that the Dissertation undertook was that of multi-method qualitative research utilising the following research strategies.

3.6 Research Strategy

The third layer of the Research Onion, arguably one of the most important, relates to how research obtains the data necessary to tackle the research problem and meet the research objectives. A combination of case study and grounded theory were used as qualitative strategies of for this research.

3.6.1 Case Study

A case study “entails the detailed and intensive analysis of a single case” (Bryman and Bell, 2011, p.59) and “explores a research topic ... within its context” (Saunders, Lewis and Thornhill, 2012, p.179). As such, a case study is the basis for inductively generating theory (Eisenhardt and Graebner, 2007, p.25). This method of research is more appropriate when research relates to an explanatory question (Yin, 2004, p.2) as with the research questions outline above. The use of a single case study, as with **this research, “can be a very powerful example” (Sigglekow, 2007, p.20), and can** allow for the investigation of rare occurrences in extreme situations (Eisenhardt and Graebner, 2007, p.27). The use of a real-life case study can also be more interesting, appealing, and persuasive to the reader (Sigglekow, 2007, p.21), as well as allowing for more in-depth analysis in context (Yin, 1994, p.1). The Dissertation **used the extreme and rare event of Ireland’s property bubble and bust cycle.** The case study was a combination of analysis of the salient facts of the case and a discussion of the possible underlying theory.

Sigglekow (2007) argues that the use of case study as a method of research is important in three ways. Firstly, it can serve to motivate the overarching research question (Sigglekow, 2007, p.21). Secondly, the case study can inspire the generation of new ideas, particularly where an inductive research approach is

adopted (Sigglekow, 2007, p.21). Finally, the case study assists in illustrating the research objective, questions and findings by allowing the reader to apply these to an empirical situation rather than having to use their imagination (Sigglekow, 2007, p.22). **As such, a case study can “emphasise the rich, real-world context in which the phenomena occur” (Eisenhardt and Graebner, 2007, p. 25) and “make direct observations and collect data in natural settings” (Yin, 2004, p. 2).**

3.6.2 Grounded theory

According to Saunders, Lewis and Thornhill (2012); **“Grounded theory is used to develop theoretical explanations of social interactions and processes in a wide range of contexts” (Saunders, Lewis and Thornhill, 2012, p.185). Shah and Corley (2006) argue that it is a process that includes “identifying a theoretical question of interest, choosing an appropriate research context, sampling within that context in such a way that data collection facilitates the emerging theory, and the making of constant comparison between the data collected” (Shah and Corley, 2006, p.1827).** Grounded theory is normally involved with an inductive research approach, but can be thought of as bridging the gap between induction and deduction (Saunders, Lewis and Thornhill, 2012, p.185) a fact which made grounded theory extremely apt for the Dissertation, where, although existing theory was present and was being tested, a new hypothesis was at the same time being generated.

The purpose of the Dissertation was to evaluate the Irish property bubble and bust cycle through the lens of the KAM Model. Hypothesis development and refinement was the goal of the Dissertation, and, therefore, a grounded theory strategy was essential. The research approach and techniques of the research also necessitated the use of grounded theory as a research strategy. As per Shah and Corley (2006); **“Empirically grounded theory is most often developed through the use of qualitative methods as researchers generate a detailed understanding and this description of the phenomenon of interest” (Shah and Corley, 2006, p.1822).** Understanding the interpretation of those who experienced what occurred is central to understanding

the phenomenon (Shah and Corley, 2006, p.1823). Therefore for the Dissertation, where the insights, expertise and experiences of the research participants were central, a grounded theory strategy was necessary.

3.7 Time Horizon

The penultimate layer of the Research Onion is the Research Time Horizon. "A cross-sectional design entails the collection of data on more than one case ... and at a single point in time in order to collect a body of quantitative or quantifiable data in connection with two or more variables" (Bryman and Bell, 2011, p.53). However, even though that the above definition does not fit with the research's design, a cross-sectional study was undertaken due to the tight timeframe within which the research took place. As the research is concerned with a specific event or phenomenon, a "snapshot' time horizon" (Saunders, Lewis and Thornhill, 2012, p. 190) was deemed appropriate.

3.8 Research Techniques & Procedure

3.8.1 Research Sampling

Ritchie and Lewis (2010) describe probability sampling, whereby the sample population is chosen at random, as largely inappropriate for qualitative research methods (Ritchie and Lewis, 2010, p.78), such as was the Dissertation. Accordingly, the Dissertation undertook a special category of purposive or non-probability sampling called *theoretical sampling*, a type of sampling that is linked to grounded theory and inductive explanation-building (Saunders, Lewis and Thornhill, 2012, p.289). In theoretical sampling the research participants are specifically selected as desired (Saunders, Lewis and Thornhill, 2012, p.289). The rationale for the use of theoretical sampling for the Dissertation was that the research required the experiences, the insights, and the opinions of professional participants or *expert actors* in the economy. As such, the research sampling needed to be very selective

with whom the research was carried out to ensure the validity and credibility of the data collected. This method of research sampling was also necessary to ensure that the data collected was appropriate for the research questions. As per Bryman and Bell (2011) **“the goal of purposive sampling is to sample...in a strategic way, so that those sampled are relevant to the research question being posed”** (Bryman and Bell, 2011, p.442).

In addition, due to the complexity of the research questions, it was necessary to select a population which would be knowledgeable and expert in the research topic. Accordingly, Irish or Ireland-based business professionals and academics - specifically economists - **were selected as the population. It was this researcher’s assertion that such a population would “by virtue of their proximity to the research question, be able to provide the richest and most relevant information”** (Ritchie and Lewis, 2010, p.87). Due to the size of this population and the fact that the research was qualitative, no sampling frame was identified. According to Saunders, Lewis and Thornhill (2012), no sampling frame need be selected when non-probability or purposive sampling - such as theoretical sampling - is used (Saunders, Lewis and Thornhill, 2012, p.262).

The research selected three expert actors from the population as the sample. According to Ritchie and Lewis (2010) qualitative samples are generally small (Ritchie and Lewis, 2010, p.83). The authors maintain that the reasons for this are threefold. Firstly, the law of diminishing returns comes into play when sample size increased. Secondly, the size of the sample does not need to be large enough to **“provide estimates, or to determine statistically significant discriminatory variables** (Ritchie and Lewis, 2010, p.83). Third and finally, due to the rich detail garnered from qualitative research (Ritchie and Lewis, 2010, p.84).

3.8.2 Interviews

"The research interview is a purposeful conversation between two or more people, requiring the interviewer to establish rapport, to ask concise and unambiguous questions, to which the interviewee is willing to respond, and to listen attentively" (Saunders, Lewis and Thornhill, 2012, p. 372). The interview as a qualitative research method is less structured than that used in quantitative research, and is attractive due to its flexibility and the fact that it is more accommodating to the personal lives of researchers (Bryman and Bell, 2011, p.465). Kvale (1996) describes the semi-structure interview as incorporating a structure of themes along with certain proposed questions, yet also being flexible (Kvale, 1996, p.124). This flexibility is central to grounded theory as it allows the interviewees to focus on themes or areas of the phenomenon that they find important (Shah and Corley, 2006, p.1828). The selection of qualitative interviews as a research strategy for the Dissertation reflected the importance of the opinions of the interviewees.

Kvale (1996) puts forward a metaphor with the interviewer acting as a traveller whereby;

"The traveler (sic) may ... deliberately seek specific sites or topics by following a *method* (sic), with the original Greek meaning of 'a route that leads to the goal'. The interviewer wanders along with the local inhabitants, asks questions that lead the subjects to tell their own stories of their lived world, and converses with them in the original Latin meaning of *conversation* (sic) as 'wandering together with' (Kvale, 1996, p.4).

However the author notes that the interview itself may alter the interviewer and how they interpret the data collected, stating that "The journey may not only lead to new knowledge; the traveler (sic) might change as well" (Kvale, 1996, p.5).

The Dissertation conducted three one-to-one semi-structured, in-depth interviews with three experts in the Irish economy. The interviewees were comprised of one banking professional and two economists. As the interviewees were experts in their chosen fields, the semi-structured interview was the most appropriate strategy to elicit the most honest and in-depth responses, while also ensuring that the data collected was of relevance and appropriate to answering the research questions. A semi-structured interview approach can also be used to reduce the likelihood of bias from the interviewer (Bryman and Bell, 2011, p.472). By using such an approach, the research hoped to reduce the likelihood of biasing the interview process with the assumptions, expectations, preconceptions or presuppositions of the researcher, as **“emphasis must be on how the interviewee frames and understands issues and events”** (Bryman and Bell, 2011, p.467).

3.8.3 Data Analysis and Coding

As stated by Ritchie and Lewis (2010) there are no strictly defined rules for analysing qualitative data, unlike quantitative data (Ritchie and Lewis, 2010, p.200). Saunders, Lewis and Thornhill (2012) contend that qualitative data is **“characterised by... richness and fullness”** and data is in the form of words rather than numbers (Saunders, Lewis and Thornhill, 2012, p.546). Having selected an interpretivism research philosophy and an inductive research approach as outlined above, the Dissertation could have sought to build up a hypothesis grounded in the data in a less structured manner. However, due to the use of grounded theory as a research strategy, this research followed the flexible Grounded Theory Method of analysis as put forward by Charmaz (2006) which consisted of two stages of coding; initial and focussed (Charmaz, 2006 cited in Saunders, Lewis and Thornhill, 2012, p.568).

The initial coding stage involved the researcher unitising and categorising the data that had been collected during the interviews. In the beginning the units were labelled using terminology from the literature, however as coding progressed these labels were replaced with *in vivo* labels that the interviewees used during the

interviews. Following an iterative process where the units of data collected were constantly compared to each other, the units were again relabelled. These new labels were derived from the data and allowed the researcher to identify core categories for further analysis.

The following stage - focussed coding - **"involves reanalysing your data to test which of your initial codes may be used to categorise large units of these data"** (Saunders, Lewis and Thornhill, 2012, p.569). This re-analysis of the data involved the re-organising of the data into the general themes and topic which had emerged. Given the semi-structured format of the interviews, this re-analysis and re-organisation of the data was necessary in order to identify the core themes across the interviews and allowed for greater and more constant comparison of findings.

3.9 Ethics

From investigation of research methods in Masters-level Dissertations, it was noted by the Dissertation that ethics is an area that garners neither the consideration nor attention that the Dissertation believes it should. Therefore, the Dissertation has set forth to comprehensively discuss this topic. According to Saunders, Lewis and Thornhill (2012), ethics is **"the standards of behaviour that guide your conduct in relation to the rights of those who become the subject of your work, or are affected by it"** (Saunders, Lewis and Thornhill, 2012, p.226).

In relation to the research, the interviewees were affected during the data collection stage of the research and may be further affected upon publication of the dissertation. Interviewees were initially approached via email. The email outlined the background and suitability of the researcher, the purpose of the research, and the role of the interviewee. The email also asked the interviewees to put any questions to the research in respect of any facet of the research process prior to the interview should they so wish ([See Appendix I - Draft Email to Prospective Interviewees](#)). Prior to the conclusion of each interview, the interviewees were again specifically

requested to raise any points, queries or concerns with the format or method of the research. No concerns were raised at that time.

The four areas of ethical research based in the work of Diener and Crandall (1978) put forward in Bryman and Bell (2011) are; harm to participants; lack of informed consent; invasion of privacy; and deception. In respect of harm, the researcher offered to grant confidentiality and anonymity to interviewees if expressly requested. However, it must be noted that had the offers of confidentiality and anonymity been taken up, the validity, accuracy, and credibility of the data collected in the interviews would have been significantly and negatively affected. Fortunately for the Dissertation, no such requests were made.

With respect to lack of informed consent, prior to each interview the interviewees were verbally informed of the purpose of the research and their expected role in the interview situation. The interviewees were also verbally briefed on the context and themes that would be covered in the interview by the researcher. Given the background of the interviewees, a certain level of familiarity with the Dissertation research process was correctly assumed. As such, a universalism approach - whereby the interviewees would be informed about every facet of the research process - **would have only served to waste the interviewees' time and ultimately** could have affected their willingness to participate openly and honestly. However, any additional queries that were put to the researcher were fully and honestly answered.

In two of the interviews, the interviewees were provided with an '*Informed Consent Form for Participation in Research Interview*' ([See Appendix II - Informed Consent Form for Interviewees](#)) prior to the start of the interview. The form was reviewed, signed, and dated by both the researcher and the interviewee prior to the commencement of the interview. In one of the interviews it was necessary for the form to be supplied to the interviewee immediately subsequent to the interview.

However, the researcher ensured that the interviewee was fully informed of the content of the form prior to the beginning of the interview, and the interviewee signed and dated the form on receipt after the interview had concluded. Each interview was tape recorded and hand written notes were taken by the researcher, with the express permission of the interviewee.

As the researcher conducted semi-structured interviews, only personal or private information that could possibly have been recorded was information willingly offered by the interviewees. Accordingly, it was assumed that no invasion of privacy occurred during the research process. With respect to deception, none was necessary or deemed prudent as a level of trust in the research process on the part of the interviewees was required in order to elicit the most in-depth and candid responses. Therefore, the ethical stance that the research adopted was that of *situation ethics*, whereby the research sets out to not breach ethical principles but ethical dilemmas will be evaluated on a case-by-case basis (Bryman and Bell, 2011, p.124). No ethical dilemmas occurred during the research process.

3.10 Research Biases, Reliability and Validity

3.10.1 Biases

There are several areas from which biases in respect of a research project such as the Dissertation could arise. The areas that this section will address are researcher bias; interviewer bias; and interviewee bias. In respect of the first bias, and as discussed above, the researcher studied economics and politics in University College Dublin. The researcher has also continued to keep himself abreast of current affairs - particularly property markets - and business developments. In addition, the researcher has been working in the Irish banking industry since early-2007. In this time, the researcher has witnessed first-hand the bubble and bust of the Irish property market. On a personal level, as the researcher has lived in Ireland all his

life, he could not have escaped the discussions and supposition on the Irish property market that pervaded home and place of work over the last decade or so.

Accordingly, the researcher inevitably, and understandably, has conscious and subconscious beliefs, preconceptions, and assumptions in respect of the topics, themes and finding contained in the Dissertation.

In carrying out the interviews for the research, the researcher was faced with the challenge of attempting to put aside his biases as much as possible in order to accurately collect the most open, in-depth and rich data from the research participants. Saunders, Lewis and Thornhill (2012) describe interview bias being **“where the comments, tone or non-verbal behaviour of the interviewer creates bias in the way that the interviewees respond to the questions being asked”** (Saunders, Lewis and Thornhill, 2012, p.381). This bias can also affect reliability and credibility which will be discussed below. The choice of a semi-structured interview format was in-part taken to address researcher bias as is it a less prescriptive form of data collection allowing the interviewee to discuss what they feel is relevant and important. The researcher also spent a considerable amount of time familiarising himself with the literature on the interview topic - prior to the interviews - in order to garner trust from the interviewee and effectively manage the interview situation.

Finally, with respect to interviewee bias Saunders, Lewis and Thornhill (2012) argue **that an interviewee’s responses may be altered by their view of the interviewer** (Saunders, Lewis and Thornhill, 2012, p.381). In order to address this, the researcher provided the same information on the Dissertation and research process to each interviewee. The authors also state that due to the invasive nature of the semi-structured interview, an interviewee may choose carefully what they say in order to avoid certain follow up or probing questions from interviewer (Saunders, Lewis and Thornhill, 2012, p.381). The interviewer attempted to lessen the first potential element of the bias by portraying himself in a professional business

manner. The interviewer was not actively aware of any occurrence of the second element of the bias in the interviews.

3.10.2 Reliability

Ritchie and Lewis (2010) argue that reliability in qualitative research is usually about the replicability of the research (Ritchie and Lewis, 2010, p.270). With respect to the Dissertation, the interviews took place in a two week period in mid-2013 by the researcher. As such, the interviews can never be replicated exactly. Also, further interviews with the research participants may elicit similar results, but the participants may have been affected by the interview process itself and a follow-up interview could result in differing findings in respect of certain themes. According to **Saunders, Lewis and Thornhill (2012); “an attempt to ensure that qualitative, non-standardised research could be replicated by other researchers would not be realistic or feasible without undermining the strength of this type of research”** (Saunders, Lewis and Thornhill, 2012, p.382).

That said, the researcher attempted to increase the reliability of the research through the selection of knowledgeable and expert research participants, as outlined above. Also, as per Seale (1999) cited in Ritchie and Lewis (2010) reliability can be **increased by “showing the audience of research studies as much as possible of the procedures that have led to a particular set of conclusions”** (Seale, 1999, p.158 cited in Ritchie and Lewis, 2010, p.271). The comprehensive nature of the research methodology section of the Dissertation is in part to attempt to address this reliability issue with qualitative research.

3.10.3 Validity

Validity in qualitative research is generally concerned with the ideas of **correctness** and **precision**, and whether you investigate what you claim (Ritchie and Lewis, 2010, p.273). Saunders, Lewis and Thornhill (2012) argue that validity can be gained through the use of semi-structured interviews once answers are clarified and probed (Saunders, Lewis and Thornhill, 2012, p.384). The research was conscious of this during the round of interviews and attempted to probe, challenge and clarify all answers given where possible. Hammersley (1992) cited in Ritchie and Lewis (2010) **states that "an account is valid and true if it represents accurately those features of the phenomena that it is intended to describe, explain or theorise"** (Hammersley, 1992, p.69 cited in Ritchie and Lewis, 2010, p.273). The above statement can be applied to the Dissertation.

Chapter 4 - Research Findings

4.1 Introduction

Four major themes, or findings, were identified from the research. These were split into two primary and two secondary findings. The two primary findings of the research were the centrality of credit, and the behaviour of the banks. The two secondary findings were the behaviour of government, and the attitude and behaviour of society. Within each theme, interrelated sub-topics were identified. This chapter of the Dissertation will consider each of the findings by comparing and contrasting the comments and observations made in each of the interviews. To accomplish this, direct quotes will be used where possible and appropriate in order that the interviewees own words are openly and honestly represented, and interpretation by the Report is minimised.

As outlined in the Research Methodology chapter, due to the complexity of the issues under investigation, it was necessary for the Report to identify the interviewees and specific comments that they made in respect of the research findings. This was to add credibility, validity and reliability to the findings, as well as to give the reader a better understanding of the background, attitude, and potential preconceptions of the research participants. It was also felt that anonymity would only serve to diminish and dilute the research findings. Accordingly, this section will briefly summarise the experience and background of the research participants; Dr David Duffy, Mr Ronan Lyons, and Mr Edmund Pierce.

4.2 The Research Participants

4.2.1 Dr David Duffy

Dr Duffy is a Research Officer at the Economic and Social Research Institute (ESRI) in Dublin, where he has worked for over 16 years. Prior to the ESRI, Dr Duffy was a research analyst for a property company in London, an economic consultant in Dublin, and in-house economist at the Chambers of Commerce of Ireland. Dr Duffy completed his PhD on heterogeneous buyers in the Irish housing market in 2006, and holds both a **M. Econ.Sc. and a Bachelor's Degree** from University College Cork. **Dr Duffy's main area of research is the housing market**, and he is responsible for the *permanent tsb* House Price Index, and he is currently responsible for the Consumer Sentiment Index for Ireland which is published monthly by the ESRI (Duffy, n.d.).

4.2.2 Mr Ronan Lyons

Mr Ronan Lyons is a doctorate candidate at Balliol College in the University of Oxford. Mr Lyons is the founder of the Economic Research Unit at **daft.ie, Ireland's largest property website, and is responsible for the quarterly reports on Ireland's residential sales and lettings markets**. Mr Lyons is also a Research Associate at the Spatial Economics Research Centre in LSE, a Visiting Researcher at the ESRI in Dublin, as well as being a regular commentator in Ireland and internationally on the Irish and European economies. Mr Lyons has a **Bachelor's degree in Economics & Political Science** from Trinity College, Dublin (Lyons, n.d.). It should be noted that Mr Lyons is of no relation to the researcher.

4.2.3 Mr Edmund Pierce

Mr Pierce is a finance professional with extensive experience in the Irish and UK banking industries, working for institutions such as; ACCBank PLC; Allied Irish Banks PLC; Anglo Irish Bank; and EBS Building Society. Mr Pierce is currently a **Special Assets Manager with an Irish bank, and manages a €25 million portfolio of non-performing loans**. Mr Pierce has a Master of Business Studies from University College Dublin, as well as Bachelor's degree from the National College of Ireland (Pierce, n.d.).

4.3 The Centrality of Credit

Credit and the expansion of credit was a core finding of the Dissertation. When questioned directly on whether the work Kindleberger and Aliber's (2011) could be used to analyse the Irish property bubble, Ronan Lyons stated that the KAM model was a **"useful framework for analysing bubbles" such as the Irish property market**. Mr Lyons was of the opinion that the Irish bubble was not in the property market, but that it was in the credit market. Mr Lyons viewed the property bubble was just a symptom of the credit market bubble. When questioned on the root cause of the bubble, Mr Lyons stated; **"the initial push was five to six years of very benign conditions; the final five to six years was credit"**.

Mr Lyons was quick to highlight the **"centrality of credit" as key to the model**. Mr Lyons explained that **"it's very hard to have a bubble unless someone is out there lending money"**. Mr Lyons stated that he viewed credit as the central insight of the KAM model, maintaining that if you are attempting to identify bubbles in assets other than property **"you've got to keep looking and find the credit"**. Mr Lyons went on to explain how a large supply of property should have lowered prices, but that **"the reason house prices managed to go higher... was because of credit, not because of supply"**. Mr Lyons was of the belief that as soon as the credit channels opened up following entry to EMU - on the back of an Ireland that was doing well economically at the time - **"you were always going to have some sort of bubble. It would be very,**

very difficult to prevent any bubble from happening, or certainly any upswing and downswing”.

4.3.1 Entry to EMU

The expansion of credit was a theme that appeared in every research interview. The most commonly cited catalyst for this expansion was Ireland’s entry to EMU.

According to Edmund Pierce, following entry to EMU, Ireland “got artificially cheap money... money that flowed into the property sector primarily”. Mr Pierce went on to state that individuals were “incentivised to borrow”. This interviewee further contended that due to the exceptionally cheap credit available and negative real interest rates “you were losing money saving”. As Mr Pierce succinctly put it; “had Ireland not been in the Euro we would have had higher interest rates, which wouldn’t have allowed people to borrow so much money and they wouldn’t have been able to bid up on the house”. The attitude and behaviour of the individual will be examined in a later section in this chapter.

Dr David Duffy, echoing Mr Pierce’s sentiments, pointed out that due to the fact that Ireland had joined EMU, “everybody knew that Irish interest rates were going to be cut to European interest rates”. Dr Duffy believed that this fact led to a “huge improvement in affordability” and “kept the boom in the property market going”. Mr Lyons maintained that Ireland’s entry to EMU was a contributory factor, stating that Ireland “sat between these two massive consumer markets - the US and the EU” and was in the “right place, right time just as the EU was developing its single market”. Mr Lyons was of the opinion that Ireland was well poised to take advantage of this event, with “low taxes, cheap skilled labour and the right language”.

4.3.2 Loss of Control

A further subject of discussion in all three interviews was the loss of control that resulted from entry to EMU. Mr Pierce stated quite clearly that when Ireland opted for the path to the Euro “we lost control of our interest rates”. Mr Pierce described

how when the periphery of Europe was booming, the more important core was underperforming, and interest rates were cut. This cut was the opposite of what was required by Ireland to moderate the boom.

Dr Duffy was also of the view that convergence with Europe resulted in lower interest rates. This, Dr Duffy contended, at a time when the Central Bank of Ireland - had it the power- **would most likely have been increasing rates in order to “dampen down the property market”**. Mr Lyons put it bluntly when he stated that following entry EMU, Ireland was left **“exposed to the decisions about interest rates that aren’t necessarily just about Ireland...in fact almost exclusively not about Ireland”**

4.3.3 The Flow of International Funds

Interrelated to EMU entry, and its effect on interest rates, was the resulting influx of foreign funds and foreign banks. This inflow of international - not just European - money was another common topic that arose within the theme of the expansion of credit. According to Mr Pierce, **“joining the Euro opened us (Ireland) up to... more foreign banks as a place to park money”**. This interviewee went on to outline how entry to EMU allowed Irish banks to easily raise capital by attracting non-Irish deposits. Mr Pierce explained how ***the spread*** - the difference between the cost of funds for a bank and the rate that that bank charges the borrower - was larger in Irish banks due to the newly available cheap money, **and Ireland’s historically higher lending rates**.

According to Mr Pierce, this resulted in funds flowing into Ireland as higher returns could be achieved versus, for example, Germany. This fact, as said by Mr Pierce, **made the Irish banks attractive internationally which “allowed them (*Irish banks*) to draw in more deposits which allowed them (*Irish banks*) to lend out more money which pumped more fuel onto the fire”**. When queried by the interviewer as to whether this phenomenon was limited to Ireland, the interview cited the cases of

Spain, Portugal and Greece, maintaining that it was not just one country but the periphery of Europe that was booming.

Dr Duffy also discussed this topic, arguing that the matters became more precarious once **"banks started lending not on the basis of their deposit base but borrowing on the international markets to lend"** leading to international money **"flowing into the property market at a much greater pace than... before"**. Dr Duffy contended that this borrowing-to-lend model - rather than traditional deposit-base lending - was to become the trigger for the bursting of the Irish bubble, citing a loss of trust between **banks that eventually cut off the flow of funds "like a switch"**. This abandoning of deposit-base-lending by banks was also identified as an issue by Mr Lyons, who was of the belief that once Irish banks were able to borrow in Euros - coupled with the fact that Ireland was economically performing well - a bubble could not have come as a surprise.

4.4 The Behaviour of Banks

The second core finding of the research was the behaviour of the banks in Ireland before and during the bubble period. The two main topics of discussion, in respect of **banks' behaviour** were; financial innovation, and lending standards and practices.

4.4.1 Financial Innovation

Financial innovation in the Irish banking sector was a central topic of the interviews. In particular, the steady climb of LTV ratios from the late-1990s was discussed at length. Dr Duffy directly pointed a finger at rising LTV ratios as a factor in the expansion of credit. Dr Duffy stated that 100 per cent mortgages were originally introduced to help people who otherwise could not get onto the property ladder. As outlined by Dr Duffy, it would have been very difficult for someone to save a deposit for a house when house prices were increasing by up to 10 per cent per annum, and when incomes were rising at a slower rate. Dr Duffy cited the introduction of 100 per cent mortgages as being seen as helping people to get onto the property ladder, and

that this was the **banks'** rationale for the increasing LTV ratios. However, Dr Duffy acknowledged that for the banks, market share was also a primary driver of rising LTV ratios.

Mr Lyons also referenced higher LTV ratios when discussing looser credit conditions. Mr Lyons stated that credit standards had been gradually **loosened, whereby "if you were a first time buyer in the year 2000 you had to have a third of the value of the house saved up before you would be given a mortgage"**. Yet by the mid-2000s, according to Mr Lyons, a first-time buyer was getting up to 96 per cent of their mortgage from their bank. Mr Lyons discussed how consumers were able to borrow multiples of their incomes, while at the same time being required to save less and less, which he regarded as pro-cyclical. Mr Lyons linked the issue of LTV ratios for individuals to the ratio of mortgage-credits to deposits - which he described as an economy-wide LTV ratio. Mr Lyons stated that these had increased from 75 per cent to 175 per cent, which was evidence of the liquidity problem that faced Irish banks at **the time. These ratios, Mr Lyons maintained, were "what really pushed up house prices"**. Both he and Dr Duffy were of the opinion that caps should have been placed on LTV ratios. Dr Duffy stated that such limits had been used successfully in other countries.

Mr Lyons citing the specific example of Hong Kong, which had put a legal LTV ratio limit in place after experiencing one bubble too many. This limit, Mr Lyons argued, is **"not counter-cyclical, but it is a-cyclical"**. Dr Duffy's *raison d'être* for such a limit was that **"it would have taken a chunk of people out of the market"**, in addition to requiring potential purchasers to save a deposit which would in turn have acted as a buffer to negative equity once property prices began to drop. As Mr Lyons concluded on LTV ratios **"I do think that they (*the Government*) could have put in place maximum loan to value, and they didn't do that, and... that's a mistake"**.

Other financial innovations were discussed in the interviews. Dr Duffy referred to the introduction of interest only mortgages, tracker mortgages, and the increase in the term of mortgages - from the standard 20 years up to 40 years in certain cases as - also being a factor in the expansion in credit. Again, Dr Duffy was of the opinion that market share was the core motivation for these innovations.

4.4.2 Lending Standards & Practices

The second topic, from in relation to **bank's** behaviour, was the lending standards and practices of the time. Mr Pierce, with his banking experience, was particularly vocal on this subject. Mr Pierce argued that the lowering of lending standards was an **"inevitable outcome of increased credit expansion"**, and that, from his personal experience, the lending practices at the time were not prudent. Mr Pierce declared that **"there was a huge degree of hubris in the banking system and among the people who were running the banks"**.

Mr Pierce elaborated on this point by stating that risky lending practices were not limited to one bank, but that **"it seemed like there was a commonality throughout the bank. It didn't matter which one I was in"** and **"it was... the mentality of the institutions"**. Mr Pierce remarked that it appeared as though every bank in Ireland were pursuing an aggressive lending strategy, much more so than other countries;

"Coming back to Ireland was a huge eye-opener... I was so shocked... at how things were done. Literally shocked. I couldn't believe it that anyone would do stuff so crazy... and it just seems to have been common place".

Mr Pierce attributed these actions to herd mentality, stating the **"they (banks) probably got sucked into it. It was a fire that fuelled itself as it gathered momentum"**. Mr Pierce likened the situation to that of a snowball which grew and grew as it progressed.

4.5 The Government

The role and behaviour of the Government was a secondary theme identified during the research process. For the purpose of the Dissertation the term *the Government* refers to any government that was in power during the period leading up to, during and immediately after the Irish property bubble. Two topics within this theme became evident during the interviews; the **Government's fiscal policy**; and the **Government's relationship with the regulatory authorities, which included the Financial Regulator and the Central Bank of Ireland (together hereinafter "the Authorities")** .

4.5.1 Fiscal Policy

The Government's attitude and approach towards business was, in general, viewed quite positively by the interviewees. Mr Pierce, in particular, was complimentary of the Government's policy towards business, stating that Irish governments "had relatively good policy in terms of encouraging business and trade" and the "typically over the last 20 years they (*the Government*) have been relatively aware that business is good". Mr Lyons echoed this sentiment when outlining how Ireland actively leveraged its advantageous position in the EU to aggressively attract investment, especially from the US. Although speaking about *Ireland* in broad terms, the Report interprets Mr Lyons' comments to incorporate the Government's policies at the time.

However, the interviewees were also critical of the Government's fiscal policies and actions during the boom period, especially its tax policy. Mr Pierce described the Government's tax policy during the bubble period as akin to throwing fuel on the fire. Mr Pierce went on to outline how property tax relief policies - such as Sections 23 and 50, which gave tax relief on rental properties built in specific areas or near certain colleges - became an issue by incentivised and artificially stimulated demand for property. Mr Pierce stated, "you have hotels built where they probably should never have been because there were tax benefits, where there is **no real demand**".

This had the effect, according to the interviewee, of pricing-out individuals - who were genuinely looking to get onto the property ladder - by investors looking to purchase properties because of the associated tax benefits.

Dr Duffy also **highlighted the government's pro-cyclical fiscal policy**, which he **maintained "fuelled the boom in the economy and fuelled the boom in the housing market"**. The Government's fiscal policy achieved this, according to Dr Duffy, by pumping money into the economy at a time when it should have been taking out money. Dr Duffy also criticised the removal of people from the tax net through cuts, which, he argued, **boosted people's affordability of housing**. Dr Duffy stated that in a booming economy and housing market there was no need for taxation measures that incentivised housing. Mr Lyons contended that the Government were most likely not aware of any measures that could be enacted to improve the situation. Mr Lyons referred to the reducing of stamp duty by the Government which, he argued, was a politically popular move that ended up pushing up house prices.

4.5.2 The Government & the Authorities

A further topic on the Government's **role in the property bubble** was its relationship with the Authorities and, to a lesser extent, the banking fraternity. According to Mr **Pierce Ireland had a "crony political system" and the Authorities had "failed resoundingly" in their role of monitoring the banks**. Mr Pierce was also of the opinion that the **Government and the Authorities were "quite cosy" and questioned whether appointments in the Authorities were based on competency or connections**. Mr Pierce **also cited the Central Bank's famous remark about donning the green jersey when it came to dealing with the banks**. In discussing what should be done to prevent any future failings of the Authorities, Mr Pierce was supportive of a free-market approach where the role of the Government and Authorities would be limited, and that supervision should be left to the private sector. Mr Pierce was of the opinion that **Government and the banking fraternity were too closely knit and needed "to be pulled apart"**.

On the role of Government in business, Mr Pierce contended that;

“they (*the Government*) should be responsible for laying out the rules of the game, and in the event that somebody doesn’t play by the rules of the game there should be a system there - a core system or a legal system - for redress... in place. ... Government shouldn’t be in the business of providing bank guarantees; they shouldn’t be in the business of providing watchdogs.”

On the subject of the Authorities, Dr Duffy cited the Honohan Report on the banking crisis and the “light-touch regulation” referred to therein. Dr Duffy went on to outline how the public were of the opinion that there was no issue in the banking sector due to the fact that there was an Authority in place who was issuing financial stability reports, so that when the full extent of the crisis was known, there was wide-spread shock.

4.6 The Attitude & Behaviour of Society

The fourth and final theme identified by the Report was the attitude and behaviour of society in Ireland before, during and following the bubble. For the purpose of the Dissertation, the term *society* is used to represent individual persons, and any groups of people in Ireland. It incorporates; borrowers (including first-time buyers and investors); property developers; the media; and those who did not become involved in the property market during the period. In essence, society is everyone that cannot be referred to as being the banks, the Government, or the Authorities.

4.6.1 Expectations

Mr Lyons placed particular emphasis on the attitude and behaviour of society during the bubble period. Specifically, Mr Lyons stated that society’s expectations were of utmost importance. Mr Lyons pointed out that during the bubble; individuals expected house prices to rise by 10 per cent to 15 per cent per annum. He

contended that this fact was "one of the reasons why people were into property, not just because interest rates were low... but people's expectations are so unrealistic". Mr Lyons even went as far as to recommend an ad campaign to inform consumers that "housing returns practically zero about inflation in the long run, and if they expect more than that, they should be preparing themselves to get... disappointed (sic)".

Mr Lyons went on to argue that one of the main objectives of the Authorities and, the Dissertation presumes, the Government, should be to keep expectations in respect of asset prices in check. The reasoning that Mr Lyons gives for this is the importance of the property market, and the associated social costs that occur when unrealistic expectations lead to poor decisions. With regards to instability in the wider economy, Mr Lyons was of the opinion that "confidence is at the heart of the modern financial system" and that "once you've got systems where a key element is confidence, it's always going to go unstable because... confidence is not stable. Expectations and confidence can change overnight, even though other fundamentals take years to change".

Dr Duffy was also of the opinion that during the bubble the Irish people "were exhibiting the characteristics of a bubble" when putting forward the classic 'this time it's different' view and dismissing those who said that a bubble even existed. Dr Duffy agreed that, in bubbles, "people get caught up in the mania of whatever... the particular asset is". Dr Duffy cited the situation whereby the Central Bank advised that house prices were in the region of 15 per cent to 20 per cent overvalued - based on indicators - but people were still of the opinion that the Irish property market would experience a soft landing.

Dr Duffy went on to describe how there was even a great deal of uncertainty and disagreement amongst economists as to whether or not there would be a soft landing in Ireland. Dr Duffy gave the example of a paper authored by economists

from the Federal Reserve Bank of the US called 'Reasonable People Did Disagree' which claimed that economists given the same data will come to different conclusions. **Dr Duffy explained that in Ireland "most economists... fell into the camp where there will be a soft land because we expect growth to slow... to more normal, European levels".**

4.6.2 Behaviour

On the behaviour of society, Mr Lyons stated that people investing in the Irish property market during the bubble were doing so for speculative gain to get on the property ladder, and as such **"they overpaid for low-end property to get the capital gains so they could get the property they actually wanted three or four years down the line"**. Mr Lyons contended that this phenomenon of people buying assets, due to the bubble, that they actually did not want is a key yet underexplored aspect of asset price bubbles, and that the Irish property bubble is a good example for analysis.

In respect of behaviour of society coming up to and following the bursting of the property bubble, Dr Duffy described a phenomenon where nervous developers attempted to incentivise sales by including extras, such as high-end kitchens, in order to maintain prices. Dr Duffy questioned whether this was evidence of a denial phase of the property bubble. Dr Duffy then questioned whether the bursting of the **bubble and its aftermath would have a "scaring effect" on the Irish people, given the extent of the fall in property prices.** Dr Duffy cited the levels of negative equity and growing mortgage arrears in Ireland at the moment and wondered whether this would be sufficient to change behaviour or make the Irish people more conservative with respect of any asset bubbles in the future.

Chapter 5 - Conclusion

5.1 Introduction

This chapter of the Dissertation will now discuss, evaluate and critically analyse the findings outlined in the previous chapter. This will be done by interpreting the interviewees comments, relating their comments back to the Literature Review chapter and, in particular, relating their comments to the underlying economic theory discussed in Literature Review chapter. As stated in the previous chapter, there were four main findings from the research; two primary themes - the centrality of credit, and the behaviour of the banks - and two secondary themes - the behaviour of government, and the attitude and behaviour of society.

5.2 The Centrality of Credit

All three interviewees placed a large emphasis on credit and spent a large proportion of the interviews discussing the importance of credit expansion in the Irish property bubble. In particular, Mr Lyons spent a considerable portion of his interview discussing the role of credit. Given the semi-structured nature of the interview and the flexibility given to the interviewee to steer the discussion, the Dissertation regards this as evidence of the significance of credit within the context of the Irish property bubble. This finding was unsurprising due to the fact that the role of credit is central to the KAM model. Credit expansion was also a central theme identified in the Literature Review chapter, in particular in the work of Kelly (2009).

In reference to one specific interview, Mr Lyons - who was familiar with the work of Kindleberger and Aliber (2011) - agreed that credit expansion was central to the Irish bubble, but was adamant that the bubble itself was in the credit market. Due to the prominence of the property market in Ireland - compared to other countries - coupled with close link between property and the Banks, the Dissertation is of the

view that it is extremely difficult to separate out a property and a credit bubble, or definitively rule on whether one could have caused the other.

5.2.1 Entry to EMU

Within the theme of credit, entry to EMU was an area of extensive discussion in the interviews. In fact, all three interviewees cited entry to EMU as the catalyst for the expansion of credit through the availability of artificially cheap international money. The low interest rates were, in effect, pro-cyclical from **Ireland's perspective**, and therefore altered the behaviour of lenders and borrowers alike

This finding was also identified in the Literature Review chapter. In particular Lane (2011), Honohan (2009), and Nyberg (2010) highlighted EMU as a contributory factor in the property bubble. The Dissertation is, therefore, of the opinion that **Ireland's entry to EMU acted as part of the *displacement***, as defined in the KAM model, which triggered the start of the bubble in the Irish property market.

5.2.2 Loss of Control

Expressions of loss or lack of control of Ireland's interest rates were also identified as an important topic of discussion. **Until very recently, Ireland's membership of EMU** would most likely have been viewed positively; especially by those mindful of the workings of the international financial system and how it has benefitted Ireland over the years. However, all three interviewees voiced negative views with respect of the **European control of interest rates. Terms such as "lost control" and "country exposed" expressed a sense of what was to follow as being inevitable, and may, in some way, mitigate blame.**

This view, however, must be analysed taking into account views on EMU and the Eurozone that propagated since the property bubble burst and the Irish banking crisis hit. EU mandated austerity and the ***Troika*** have no doubt harmfully affected **Ireland's historically positive view of an economically integrated Europe. It must be**

noted that this negative attitude was not evident in the Literature Review chapter, and the Dissertation recommends this an area warranting further research.

5.2.3 *The Flow of International Funds*

Discussion on the topic of the flow of international money to Ireland also took a negative tone. The Dissertation is of the opinion that, prior to the bursting of the bubble, the influx of foreign funds to Ireland would have been viewed in positive terms. For example, without these funds the infrastructure of the country would not be as developed as it is now. However the language used in the interviews was largely negative, for example “pumped more fuel onto the fire”.

Similarly to the loss of control of interest rates, there was a sense that Irish banks’ hands were tied and that they *had* to lend the new found cheap credit. Unfortunately this appears to have been the case with the banks who were apparently more worried about their market share than the health of their respective loan books. The Dissertation is of the belief that, as identified in the work of Lunn (2011) in the Literature Review chapter, Ireland is now experience a phase of *hindsight bias*, with respect to the inflow of international funds and the low interest rates that Ireland experienced during the period in question.

5.3 The Behaviour of Banks

5.3.1 *Financial Innovation*

The most notable area of discussion within this topic was the development of LTV ratios in the bubble period. As outlined in the previous chapter, LTV ratios appeared as a topic of conversation in two of the three interviews, with Mr Lyons highlighting increasing LTV ratios as pushing up house prices. Having authored a paper on the subject for the ESRI it was no surprise that Dr Duffy also discussed this topic with a high level of expertise. In particular, the Dissertation **finds merit with Dr Duffy’s**

views on the triggers for the increase in LTV ratios being initially to assist first-time buyers, but also motivated by a drive for market share.

The Dissertation is of the opinion that high LTV ratios had a large role to play in the property bubble. High LTV ratios gave individuals - first-time-buyers and investors alike - the ability to purchase properties which they could plainly not afford. This artificially increased the demand for property, which stimulated the construction sector to meet this demand. This virtuous cycle is identified by Kelly (2009), Lane (2011) and Nyberg (2011) and has been discussed in the Literature Review chapter.

The Dissertation also finds merit in, and recommends, the introduction of LTV ratio limits, as proposed by both Dr Duffy and Mr Lyons. Such a cap would reduce the upward pressure on prices during times of economic expansion. This pressure, as the Literature Review chapter outlined, had a detrimental effect on the Irish property market during the bubble period. In addition to these limits, the Dissertation also recommends investigation into other limitations that could be placed on financial innovation, including limits on mortgage terms, interest only periods and the multiples of income of which a borrower can avail.

5.3.2 Lending Standards & Practices

As with the expansion of credit discussed above, it was no surprise to the Report that the lending standards and practices of Irish banks would be questioned in the interviews. In particular, Mr Pierce - with his extensive experience in commercial and retail banking - highlighted the lowering of lending standards as a central topic for discussion. As discussed in the previous chapter, Mr Pierce argued that it was inevitable that the expansion of credit available would lead to the lowering of lending standards. His logic was that, through the rule of diminishing returns, the next borrower would - on average - be more risky than the one before so any expansion of credit would lead to lending to individuals who would eventually be unable to meet their repayments.

As discussed in the Literature Review chapter, the blame for this behaviour by the banks has landed squarely on the shoulders of Anglo Irish Bank. It is clear from the interviews, in particular the first hand experiences of Mr Pierce, and from the Literature Review chapter that the many Irish banks were unconcerned with the quality of their loan books. Instead, a taste of increased turnover appears to have led to a hunger for profits, with the banks taking more and more risk in an attempt to gain or retain market share. This behaviour can be related back to the work of Minsky (2008) who, as outlined in the Literature Review chapter, argued that hedged financed firms tend towards speculation - and eventually Ponzi financing - in search of profits. This trend then leads to instability and the increased risk of an asset price bubble materialising. The Dissertation contends that this is evidence of the inherent instability of the Irish property market prior to and during the bubble period.

5.4 The Government

5.4.1 Fiscal Policy

A surprising find of the Dissertation was the mixed views held in respect to the Government. Although their fiscal policy was heavily criticised by the interviewees, their pro-business approach was viewed positively. In respect of their tax policies, however, the Government was lambasted. It is clear from the interviews that the research participants were of the opinion that the tax policies had a negative effect on the Irish property market by generating artificial demand and incentivising investment. The reference to the fact that the government "threw fuel on the fire" is evidence of the negative views of the interviewees.

The motivation for the Government's tax policies was to help businesses, in particular the construction sector, which, as discussed in the Literature Review chapter, grew rapidly and beyond fundamentals of population and income growth

during the period in question. This reliance upon one sector has also been criticised in the literature, in particular by the Nyberg Report (2011) and by Kanda (2010). To relate this topic to the theory discussed in the Literature Review chapter, the tax policies adopted by the Government during the period in question could be regarded as *displacement* following the definition of Kindleberger and Aliber (2011) as the tax policies were a *shock* that improved “the economic outlook and the anticipated profit opportunities... in at least one important sector of the economy (Kindleberger and Aliber, 2011, p.27). For Ireland, construction was that sector.

5.4.2 Government & the Authorities

The overriding view **of the Government’s relationship with the Authorities was** negative, which came as no shock to the Report. The comments of Dr Duffy and, in particular, Mr Pierce have been interpreted by the Report to imply that the Authorities failed in their task of keeping the banks in check and the economy **adequately performing. Mr Pierce’s comments and Dr Duffy reference to “light-touch regulation” may also be interpreted as demonstrating the perception that there** existed a level of complicity between the government, the Regulator and the banking fraternity in Ireland at the time.

In reference **to Mr Pierce’s** free-market views outlined in the previous chapter, the Dissertation is of the opinion that a certain level of oversight is required. As is evident throughout the Report, left to their own devices, collaboration between the Banks and society is unlikely to lead to a well-adjusted property market. As outlined in the Literature Review chapter, the failings of the Authorities in Ireland have been extensively and adequately discussed, in particular in the Nyberg Report (2011) and the Regling and Watson Report (2010). This Report is of the belief that there is little requirement, at this point, for any future investigation on this topic.

5.5 The Attitude & Behaviour of Society

5.5.1 Expectations

Expectation was a term that Mr Lyons used on several occasions during his interview, and can be linked to the ideas of *herding* and *groupthink* discussed in the Literature Review chapter. Mr Lyons references to irrational expectation on the part of the wider society shows the importance that he placed on this relatively neglected phenomenon of the Irish property bubble. It was clear from the interview that Mr Lyons believed that the psychology of society precipitated and amplified the property bubble, especially given the levels of return on investment that society believed could be achieved. In respect of Mr Lyons assertion that there should have been a national ad campaign to dampen consumer expectations, Kindleberger and Aliber (2011) maintain that, as discussed in the Literature Review chapter, warnings from the Government and the Authorities would have little effect on the bubble given the level of price rises that people expected.

Dr Duffy also discussed the irrational expectation by many that Ireland would experience a *soft landing* when the property bubble ended. This has, unfortunately for hundreds of thousands of people, not come to pass. As discussed in the Literature Review chapter, this phenomenon is alluded to by Kelly (2010) who opines that a **view persisted during the bubble that “the road to riches lay in selling houses to each other”**. This phenomenon is also discussed by Lunn (2011) in reference to the Irish banking crisis. The Report is of the view that the irrational expectation and unfounded confidence of society in Ireland during the bubble period is evidence of the *euphoria* that characterises the third stage of the KAM model.

5.5.2 Behaviour

The behaviour, and underlying psychology, of society before, during and following the bubble was a common topic of conversation in the interviews. As discussed

above, Mr Pierce pointed out how individuals were incentivised to invest by the tax policies enacted by the government. However, it should be noted that no individual was forced, as far as the Dissertation is aware, into purchasing any property. The Dissertation contends that this is evidence of the greed of the society as a whole and further evidence of the *euphoria* that existed during the bubble.

Dr Duffy also expressed a view that Irish society experienced a *mania* or *euphoria* during the bubble period. Dr Duffy's example of the behaviour of nervous property developers and reference to a denial phase leads the Dissertation to take the view that this nervousness and reactive behaviour is an indication of *panic*, the fifth and final phase of the KAM Model as discussed in the Literature Review chapter.

5.6 Conclusions

The Dissertation is of the view that the KAM model is an extremely broad, yet useful framework for analysing a bubble. Some, as Mishkin (1992) did, may argue that it is too broad to be of any use, but the Dissertation disagrees with this criticism. The Dissertation argues that due to the nature of asset price bubbles, which can appear at any point in time, in any country or economy, and in respect of any tradable commodity, the KAM model must be broad to be of any applicable use in analysing a boom and bust business cycle.

Interrelated to the centrality of credit in the Irish property market was credit's fingerprints on the other findings of the Dissertation. Without credit, the banks would not have been able to innovate to the point that they almost brought down the entire banking industry in Ireland. Credit also appears to have acted both as a factor in both the *displacement* and the *boom* phases of Ireland's asset price bubble. Without credit, the banks would not have been able, or allowed, to institute the lending practices and standards that were prevalent during the *boom* and *profit-taking* phases of the Irish property bubble. Without credit, society's attitudes and

behaviours would have been kept in check. Without credit, none of this would have been possible.

Having carried out an extensive review of the literature on both the underlying macroeconomic theory on financial instability and the Irish property bubble, followed by an evaluation and critical analysis of the research findings, the Dissertation is of the firm opinion that the Irish property bubble was prototypical of a KAM model asset price bubble. To that end, the core of this assertion is that the centrality of credit that was abundantly evident in the Irish context. As discussed in the Literature Review chapter, credit is central to the KAM model. The Dissertations research findings confirm that credit was also as the heart of the Irish experience. The Dissertation also identified three additional findings, the behaviour of the banks, the role of the Government, and the attitude and behaviour of society. In addition, the Dissertation has made several recommendations for further research, investigation - in particular in respect of the psychology of the Irish society during the research period - and policy change - namely in the area of LTV ratio limits. In conclusion, the Dissertation has answered the research questions and accomplished the research objective as stated in chapter one.

Chapter 6 - Reflective Report

6.1 Introduction

Learning is not supposed to cease once one leaves formal education, whether that education is school, an undergraduate programme, or a Masters programme.

Learning is an endless pursuit that begins with birth and ends with death. This learning helps us to adapt to the environment around us, which is essential for individuals to navigate the complex modern society that surrounds us, and which we have created. As Bourner (2003) states, "Recognition of the accelerating pace and impact of technological change, economic change and social change has created awareness for the need for graduates to be lifelong learners" (Bourner, 2003, p. 267).

This chapter of the Report discusses this reality of education and learning through reflection. The first section of this chapter will examine the learning styles that are discussed in the literature, including the work of theorists such as David Kolb, Peter Honey and Alan Mumford. This section will allow me to frame my learning style for a more worthwhile reflection process. In the second section I will reflect upon and analyse some of the experiences that I, the Dissertation researcher, encountered during the MBA programme and the Dissertation process. This section will include; a brief summary of my personal background; my academic experiences prior to the MBA; my professional experience to date; my motivation for embarking on the MBA journey; and an inventory of the skills I gained and developed during the MBA programme and Dissertation research process. The third and final section of this chapter will outline a road-map for further learning in my personal life and career. This will be heavily based on the following theories and experiences.

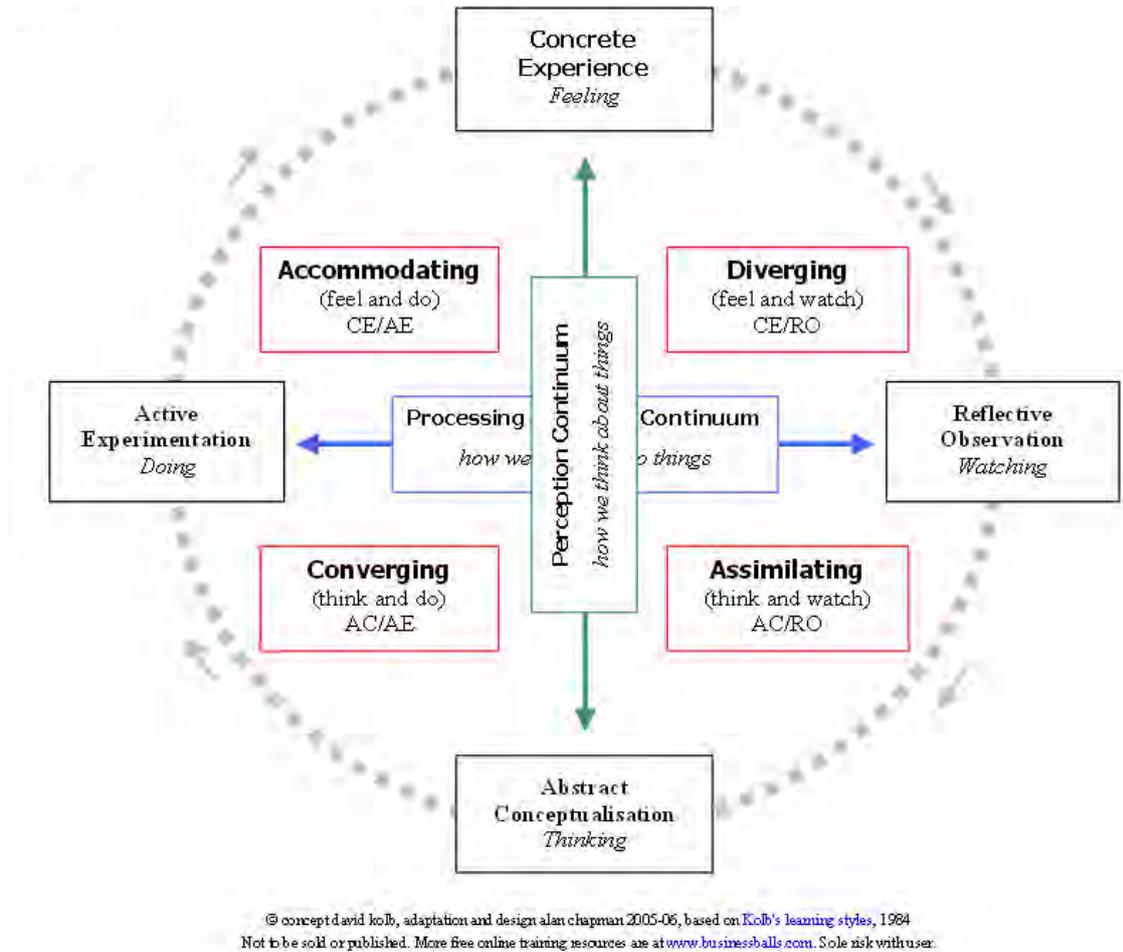
6.2 Reflective Learning Theory

6.2.1 Kolb's Experiential Learning Cycle

Experience plays a vital role in learning (Kolb, 1984, p.20). As such, Kolb placed an emphasis on experience when discussing learning. In Kolb's (1984) *Experiential Learning Cycle* (ELC) the author sets out four separate but linked learning phases; *concrete experience*; *reflective observation*; *abstract conceptualisation*; and *active experimentation*. Concrete experience is concerned with how the actual experience, whether it be viewing a presentation or writing a report, is felt by the learner.

Reflective observation is where the learner reviews the process of the experience through examination. In the abstract conceptualisation phase, the learner theorises and postulates on the experience and observations developed in the previous two phases. Finally, in the active experimentation phase the learner applies this new found concept in a testing manner to other experiences, and the whole process starts again. As can be seen by the diagram below, the cycle is iterative and ever-repeating. As Kolb (1984) puts it, "Ideas are not fixed ... but are formed and re-formed through experience" and "No two thoughts are ever the same, since experience always intervenes" (Kolb, 1984, p.26).

6.2.1.1 Figure 9 Kolb's Learning Styles



Source: <http://www.businessballs.com/kolblearningstyles.htm>

6.2.2 Kolb's Experiential Learning Styles

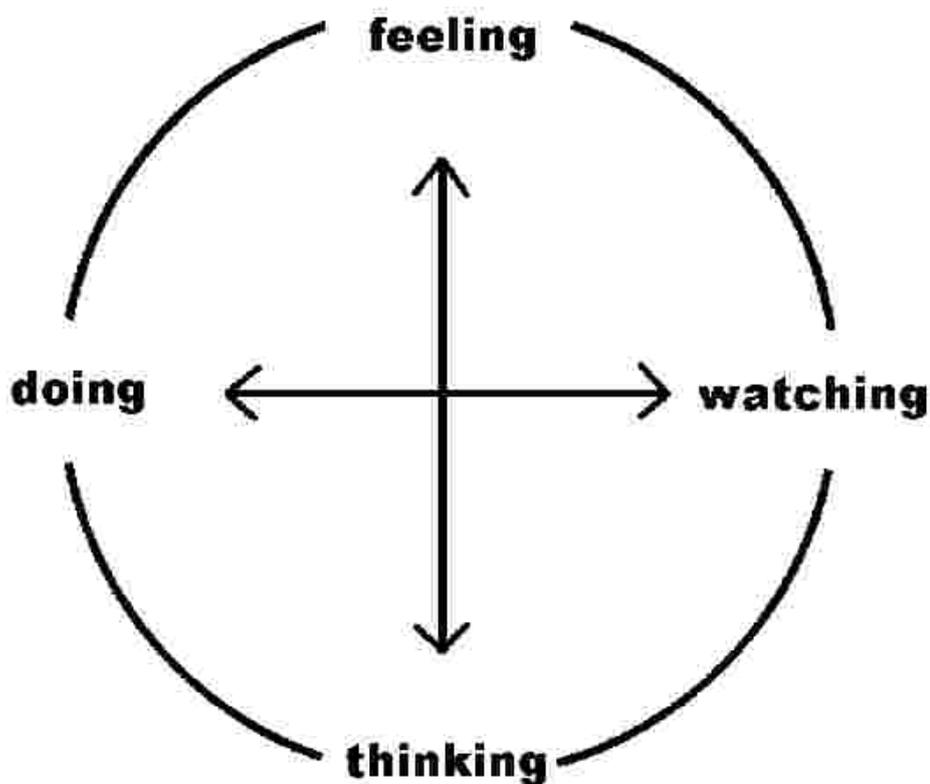
Kolb (1984) incorporates the phases of the cycle to generate four types of learner, **Kolb's Experiential Learning Styles** (ELS). These are as follow;

- Divergers (concrete experience & reflective observation) who watch, gather information, and then use imagination. The learner can see various viewpoints and are emotional.
- Assimilators (reflective observation & abstract conceptualisation), who are logical and concise. The learner more interested in abstract ideas than people.
- Convergents (abstract conceptualisation & active experimentation), who are practical problem solvers. The learner is more technical than personal.

- Accommodators (active experimentation & active experimentation), who are hands-on and practical. The learner is impulsive and attracted to challenges.

Kolb (1984) argued that certain phases of the cycle were conflicting and as such could not be combined. Concrete experience could not be reconciled with abstract conceptualisation, while reflective observation was contradictory to active experimentation. As such, Kolb (1984) placed these concepts at each end of a continuum, as per the diagram below;

6.2.2.1 Figure 10 Kolb's Learning Continuum



Source: <http://www.businessballs.com/kolblearningstyles.htm>

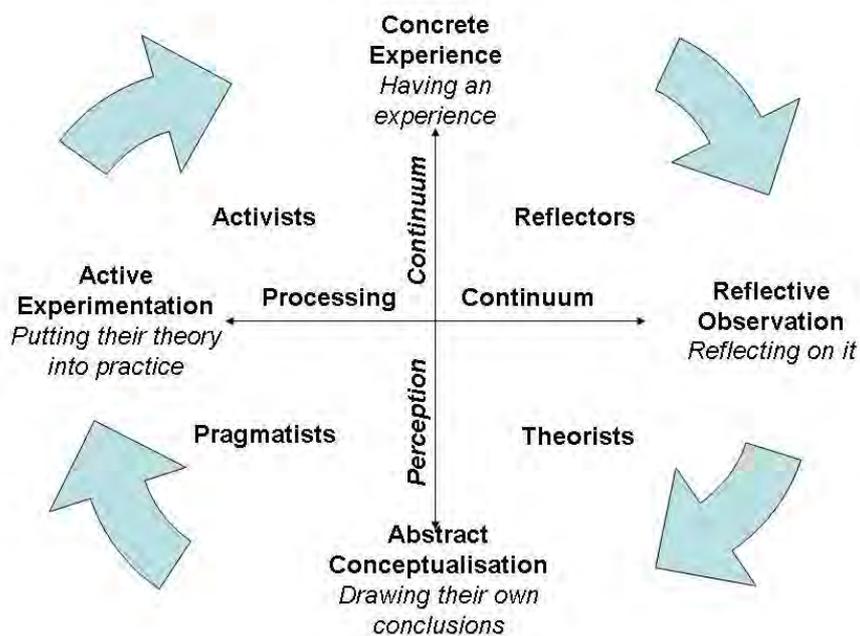
6.2.3 Honey and Mumford's Learning Styles Questionnaire (LSQ)

The work of Kolb heavily influenced that of Honey and Mumford, and their *Learning Styles Questionnaire* (LSQ) is a direct development of Kolb's Experiential Learning Styles. Honey and Mumford's (2000) model is similar to Kolb's (1984) cycle, but

differs in that they substitute the terms divergers, assimilators, convergers, and accommodators with reflectors, theorists, pragmatists, and activist respectively.

Honey and Mumford's (2000) model is also much more flexible than Kolb's (1984) in that the learner can jump from stage to stage, rather than moving through the cycle in one direction. Also, Honey and Mumford (2000) are of the opinion that learners can move between the different learning styles depending on their situations.

6.2.3.1 Figure 11 Honey and Mumford's Learning Cycle



http://www.nwlink.com/~donclark/hrd/styles/honey_mumford.html

6.2.4 Felder-Soloman Learning Styles

In order to better define my learning style and to allow me to place myself within Kolb's (1984), and Honey and Mumford's (2000) models, I searched for and completed an on-line questionnaire. Prior to completing the questionnaire I thought about where in the above mentioned models I would fit myself, or if I fit the models at all. After careful consideration I labelled myself a pragmatist (Honey and Mumford) or a converger (Kolb). Generally, I prefer to work in a 'hands-on' manner

scales. Prior to completing this questionnaire I would have regarded myself as more of an active and global learner. With regards to visual or verbal learning, I am not surprised that I am well balance.

What is also not a revelation to me was that I have a strong preference over sensing learning as opposed to intuitive learning. Felder and Soloman (n.d.) define the sensing learner as someone who prefers learning facts and solving problems by well-established methods. Sensing learners are hands-on, comfortable with details and good at memorizing facts, as well as being practical and careful. Sensing learners don't like theoretical courses that cannot be applied to real world scenarios. I believe that these characteristics, all of which I see in myself, are of benefit to me in my chosen career and in the Finance modules of my MBA programme.

6.3 My Experiences

6.3.1 Personal

I attended a German school in Dublin from the age of four. Being a foreign language school, it was not just attended by Irish and Germans, but had an international student body. This gave me an international perspective from an early age. At a young age, my parents impressed upon me the importance education. My father went to university and therefore placed a particular emphasis on third-level learning. For this reason, my parents have always been completely supportive in any educational endeavour that I have decided to undertake.

6.3.2 Academic

Following my Leaving Cert I attended University College Dublin where I studies Economics and Politics. In retrospect, I find my college life to have been unrewarding from a personal development perspective. In classes of over 200 students, there was little or no opportunity - or appetite - in asking questions, raise doubts or challenging

lecturers. I also found the smaller study classes to be limited value. I left UCD without having been required to make one presentation, speak in front of my class, or participate in any group work or assignments. Looking back, there was nothing stopping me doing so if I had really felt passionately about personal development, and I could have easily found an outlet in one of the many college societies. I did however strengthen my writing skills, as well as gaining valuable exam practice.

6.3.3 Professional Background

I began my professional career in commercial banking towards the tail end of the property bubble, and prior to the banking crisis. Initially I was involved in the drafting of legal contracts and agreements between the bank and its customers. Following the onset of the banking crisis my role shifted to reviewing the contracts and agreements to ensure that the loans were properly collateralised. Discussion of how, why and what had happened in the industry was the topic of every dinner table and pub discussion in Ireland at that time, and I found myself immersed in the subject at work, at home and when out with friends. I became increasingly interested in the subject and began replacing the novels and history books that I read in my spare time with books and magazines on finance.

Following my embarking on the MBA programme I was selected for promotion to a department that manages the relationships with key customers in arrears to affect payment recovery. This role involves liaising with Receivers and auctioneers in order to dispose of collateral and other assets. My professional experience to date has given me invaluable insight into the Irish property market and the lending standard and practices that were prevalent during the property bubble. For my Skills Inventory, please see [Appendix III](#).

6.3.4 Choosing a MBA

Prior to starting down the MBA path, I believed that I was well regarded in my department, and put lack of advancement down to the fact that there were limited opportunities in my chosen industry due to the banking crisis. However, when one such opportunity arose and I was not successful in my application, I received feedback that I was too focussed on my own role in the department, did not appear to be hungry for advancement, and did not look for areas outside my team with which I could become involved. This also gave me the realisation that I needed to bolster my skill set by undertaking postgraduate education if I want to realise my career goals stated below. In my industry a MBA qualification is highly regarded as the graduates have well-rounded skill sets and are better strategic thinkers. However, it was only after I started the programme that, through speaking to colleagues and managers, I realised just how well an MBA is regarded, and how many of my company's senior management have completed similar programmes. For my Personal SWOT Analysis, please see [Appendix IV](#).

6.4 My Skills

6.4.1 Critical Thinking & Analysis

As someone who relied heavily on retention of information for the majority of my educational life, I generally tried to steer away from such thinking as I thought that it would be viewed as being negative and a pessimist. I now realise the critical thinking and analysis is a core skill for every senior manager. As a senior manager, I will be required to judge whether decisions are correct, often with incomplete or conflicting information. Through class discussion, course work, group assignments and the academic literature, the MBA opened my eyes to the importance of this skill in business.

The Dissertation greatly tested my critical thinking and analysis skills. I was required to scrutinise and synthesise large volumes of academic work in order to produce a cogent narrative and argument in the Literature Review and Research Methodology chapters. In particular, the research interviews were the greatest tests to date. Having interviewed experts in the areas of economics and banking, I initially found it difficult to critically analyse their comments. However, after reflecting upon my experiences during the MBA programme I felt that I was qualified to tackle the assertions and comments made by the interviewees. This realisation has given me confidence in this skill and I will be able to apply it to my professional life for the benefit of my career and my employer.

6.4.2 Interviewing & Effective Communication

I have always regarded myself as good communicator and have never had a problem creating a rapport with someone I have just met. However, it was not until I embarked on the round of research interviews that I realised that I may not be as effective a communicator as I previously believed. On listening back over the interview tapes and reading back over the transcripts, I realised that I had trouble framing the questions that I wanted to ask. On far too many occasions I heard myself mumbling, leaving sentences unfinished, switching tenses and, unfortunately, appearing as if I was unsure as to what I was trying to ask. This was troubling to me as I knew that I was very sure of what I was wanted to say, but was obviously having trouble getting this across.

Having only relatively recently identified this flaw in my skill set I have had limited opportunity to comprehensively investigate or correct this failing. That said I feel more confident that being aware of this issue, I am now better able to deal with it the next time it arises.

6.4.3 *Presentation Skills*

I had always thought that I would be a good public speaker, making interesting and gripping presentations. This was an ability that I felt that I would have no problem with prior to the MBA, but one that I knew would be important in achieving my career goal. To achieve my career goals I know that I will be required to make presentations, sometimes about subjects that may not be received positively. After nervously rushing and stammering my way through my first presentation in front of the class I realised that I had a long way to go to get to the level that I demanded of myself.

I realised that like any skill, it had to be learned and practiced. To that end I have made a point to speak up and make presentations in class, as well as in work, whenever possible. I also realised that preparation was key to a good presentation and have made sure that I practice at least five minutes for every one minute of the actual presentation. This level of practice and preparedness has paid dividends, with my final presentation in my MBA being by far my strongest.

6.5 My Future

6.5.1 *Career Objectives & Goal*

My career goal is to become a C-level executive in an international financial corporation. I believe that the path to this goal will be challenging yet rewarding. I believe that this goal is achievable for me, and that I already have many of the skills necessary to be a value-adding and successful addition to any international financial

corporation. I currently work for an international financial corporation and have gained valuable insight to the decision-making and inner working of such an organisation. For my Career Objective Tree, please see [Appendix V](#).

Since undertaking the MBA programme in DBS, I have been promoted to a role where I am now looked upon as a leader and someone whose opinion is sought out, valued and acted upon. I currently work in the retail arm of my bank, and my next objective is to move over to the corporate arm of the organisation where I will gain valuable knowledge in the corporate lending and restructuring division. Ideally, I will have been promoted to a management position prior to such a move, but this is not a pre-requisite for me. I believe that by gaining hands-on experience in different divisions of an international financial corporation, I will be better placed to make the move to senior management where I will be required to confidently and deftly navigate the differing issues affecting the financial services sector. I am aware that I will be required to work outside of Ireland for a certain period of time in order to acquire experience in a global setting. For my Target Skills Analysis, please see [Appendix VI](#).

6.5.2 Future Learning

Now that my MBA journey is coming to a close, it may seem very easy for me to rest on my laurels. I could resume working in the manner in which I was prior to beginning the MBA programme, with little thought to personal development or learning. However, if there is one skill that this programme has taught me is that unless you consciously think about what you have learned, then you are not learning to your full potential. Only by actively reflecting on events and experiences, realising what development occurred, and by then putting this knowledge into practice can I fully realise my career goals and more.

My department has recently instituted daily stand-up meetings in order to better manage resources and ensure communication of strategy. As outlined above, I have

vastly improved my presentation skills since undertaking the MBA programme, and this fact has been recognised by my manager who now relies upon me to facilitate these stand-up meetings, and to act as a mentor to those with less presentation experience. This has allowed me to not only be of greater value to my company and colleagues, but it has also given me a greater level of positive visibility within my department, having only joined the department in early 2013.

In my current role, I regularly meet customers with whom the relationship with the bank has become strained and soured. In these meetings, my objectives are to re-establish a working business relationship, negotiate a win-win situation where possible, and to obtain information from the customers that they heretofore have been unable or unwilling to supply to the bank. As such, I will no doubt have many chances to correct the communication issue identified above in the near future.

Having reflected on this matter over the last few weeks, my first area of focus is to ensure that I am adequately prepared for any and every meeting, and to visualise how I will approach each possible scenario that may arise. I am confident that I will be able to overcome this weakness, but only if I consciously reflect upon these experiences and implement a plan to improve my effective communication.

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Appendix I - Draft Email to Prospective Interviewees

Dear

My name is Hugh Lyons. I am a Master of Business Administration student in Dublin Business School specialising in Finance. I currently work in retail banking in Dublin having graduated from University College Dublin with a honours Bachelor of Arts in Economics and Politics in 2004.

As part of my MBA course I am preparing a dissertation on the Irish property bubble. In particular my dissertation will evaluate the Irish property bubble and bust cycle **through the application of Hyman Minsky's Financial Instability Hypothesis and his** five-stage model of asset price bubble and bust cycles (displacement; boom; euphoria; profit taking; and panic). This model has since been expanded on by the work noted historical economists Charles P. Kindleberger and Robert Z. Aliber.

In order to collect the information necessary for me to complete my dissertation I would be most appreciative if you would consent to a short interview (30-40 minutes) on the topic of the Irish property bubble and bust cycle. I believe that your experience, expertise and insight into the Irish housing market will be invaluable and will assist me in preparing my dissertation.

If you have any questions that you would like to ask me prior to coming to a decision on my request, please do not hesitate in contacting me by return of mail or on the below quoted phone number. I look forward to hearing from you in due course.

Kind Regards,
Hugh Lyons

Appendix II - Informed Consent Form for Interviewees

Thank you for agreeing to participate in this research interview. This form details the purpose of the study, a description of your involvement and your rights as a participant.

The purpose of the research is to evaluate the Irish property bubble-bust cycle of the late-20th and early-21st century through the application of the Kindleberger-Aliber-Minsky Model.

The research is intended to give the target readers, primarily business academics and banking/finance professionals, a better understanding of the Irish property bubble-bust cycle and how it relates to existing theory on financial instability. This understanding will hopefully help prevent a future property bubble-bust cycle from occurring in Ireland.

The methods that will be used to meet this purpose include interviews with informed and knowledgeable business academics and banking/finance professionals. This will be done in order to garner honest and in-depth insights into the topic from individuals who experienced the phenomenon.

You are encouraged to ask questions or raise concerns at any time about the nature of the research or the methods being used. You can contact me at any time at XXXX@XXXX.com.

Our interview will be audio taped in order to assist with accurately capturing your insights in your own words. The tapes will only be heard by me for the purpose of the research. If you feel uncomfortable, you may ask me to turn off the audio recording at any time.

You have the right to withdraw from the research at any time. In the event that you choose to withdraw from the research, all information you provide (including tapes) will be destroyed and omitted from my final dissertation.

Insights gathered from you other participants will be used in my Masters dissertation which will be read by my dissertation supervisor and other examiners. The final dissertation may also be published in the Masters Dissertation section of the Dublin Business School library and on-line library. If you do not wish for your name, or any other identifying information pertaining to you, to be used in my final dissertation kindly inform me at any time prior to the 31st July 2013.

By signing this consent form you, _____, certify that you agree to the terms of the agreement.

Signature: _____
Interviewee

Date: _____

Signature: _____
Interviewer - Hugh Lyons

Date: _____

Appendix III - Skills Inventory

Professional Skills

- Relationship management
- Portfolio management
- Effective negotiation
- Effective interpersonal communication
- Business Process Improvement
- MS Office
- ERP implementation, User Acceptance & Regression testing
- Business report writing
- Capacity management
- Project management
- Property law
- Consumer law
- Banking regulations
- Drafting of professional legal documents
- Customer service
- Staff training
- Presentation
- Chairing of meetings
- Time management

Academic Skills - Undergraduate

- Essay writing
- Exam technique
- Academic report writing
- Typing
- Macroeconomics
- Microeconomics
- Quantitative mathematics

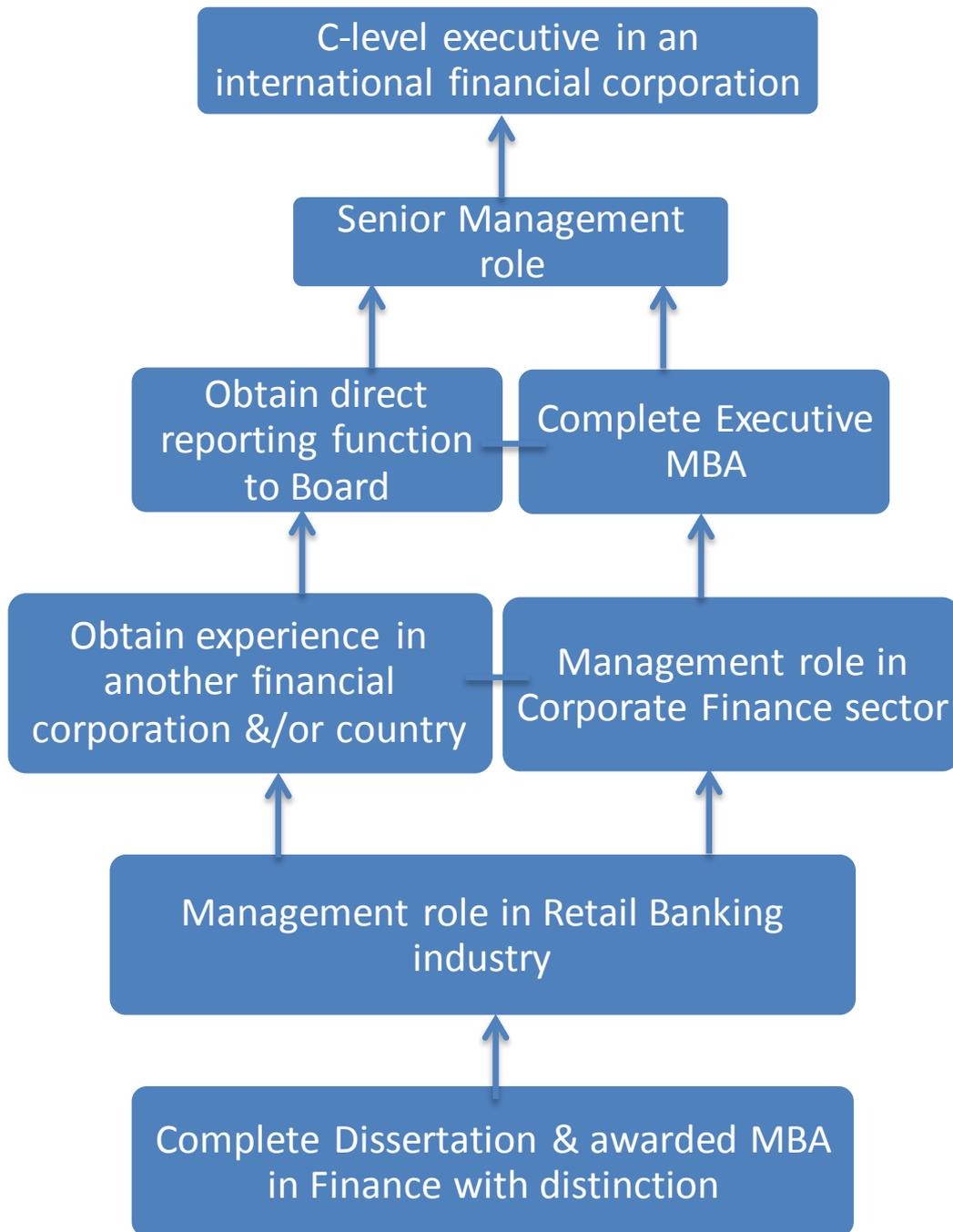
Academic Skills - Postgraduate

- Critical thinking and analysis
- Group work
- Influencing
- Negotiation
- Presentation
- Management techniques
- Strategic thinking
- Financial principles & theory
- Marketing principles & theory
- Operations principles & theory
- Research skills
- Interviewing

Appendix IV - Personal SWOT Analysis

S Strengths <ul style="list-style-type: none">• By entering the banking industry when I did, I have gained valuable experience in a challenging work environment.• I have an excellent memory and I have strong mathematical skills.• I personable, professional, ambitious and I have a good work ethic.• I find my chosen career path interesting which aids in any research necessary.• I have high level of inter-personal skills.	W Weaknesses <ul style="list-style-type: none">• I do not have a track record of achieving my potential.• I have less patience than is required of me at certain times.• My presentation skills are not yet at the level I wish them to be.• I am not a creative individual.• I prefer to work on my own than as part of a team.• My effective communication skills are not as strong as previously believed
O Opportunities <ul style="list-style-type: none">• I have developed many beneficial working contacts in my chosen industry & through the MBA programme.• My chosen industry, though negatively affected by the recession, will continue to create opportunities for ambitious hard-working individuals.• The skills required to succeed in my chosen industry are transferable to other industries and other countries.	T Threats <ul style="list-style-type: none">• Family and friend commitments will put a strain on my work-life balance.• The banking industry may not recover to pre-crisis levels as quickly as some analysts believe.• I may never progress my skills base to the level needed to achieve my career goal.

Appendix V - Career Objective Tree



Appendix VI - Target Skills Analysis

Academic skills	Professional skills	Career goal	Target skills
<ul style="list-style-type: none"> • Critical analysis • Group work • Influencing • Negotiation • Presentation • Management techniques • Strategic thinking • Financial principles & theory • Marketing principles & theory • Operations principles & theory • Secondary Research skills • Essay writing • Academic report writing • Typing • Macroeconomics • Microeconomics • Quantitative Mathematics 	<ul style="list-style-type: none"> • Inter-personal • Communication • Business Process Improvement • MS Office • ERP implementation, User Acceptance & Regression testing • Business Report writing • Capacity Management • Project Management • Conveyancing Law • Property Law • Consumer Law • Banking regulations • Drafting of professional legal documents • Customer Service • Staff training • Presentation • Chairing of meeting • Time management 	<p style="text-align: center;">C-level executive of an international financial institution</p>	<ul style="list-style-type: none"> • Advanced influencing • Advanced negotiation • Advanced presentation • High level networking • Financial Management • Management and leadership • Corporate financing • Effective Communication

