

Eddison Walters Modern Economic Analysis Theory: Building on the Eddison Walters Risk Expectation Theory of The Global Financial Crisis of 2007 and 2008

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ABSTRACT

The results of several recent studies called the analysis of economic data from the United States real estate industry preceding the Global Financial Crisis of 2007 and 2008 into question. Advancement of technology is a disruptive force throughout the economy today. The speed at which technology continues to evolve has resulted in significant changes throughout the entire economy around the world. As technology continue to evolve, there is no question technology disruption will continue to occur. Economist can no longer rely solely on backward looking historical data when conducting economic analysis. The evolution of the global economy require an understanding of the impact of advancement in technology occurring throughout the economy as researcher conduct analysis of data to draw conclusions. The result of recent studies led to the development of “Eddison Walters Modern Economic Analysis Theory”. Data analysis suggesting the false conclusion of the existence of a real estate bubble in the United States real estate market preceding the Global Financial Crisis of 2007 and 2008 was presented in Walters and Djokic (2019). Nonlinear regression analysis for correlation of variables in Walters (2019) resulted in 194.041 Mean Dependent Variable, 0.989 Adjusted R-square, 5.908 Square Error of Regression, and 488.726 Sum-of-Square Residual for the independent variable of “advancement in technology”, and the dependent variable of “home purchase price” preceding the Global Financial Crisis of 2007 and 2008. Walters (2019) concluded advancement in technology was the most significant factor causing home prices to increase preceding the Global Financial Crisis of 2007 and 2008. Overwhelming evidence led the researcher to conclude, the failure to consider the impact of advancement in technology in data analysis was the most significant error responsible for causing data analysis distortion leading to the false conclusion of the existence of a real estate bubble preceding the Global Financial Crisis of 2007 and 2008 (Walters, 2020). The researcher proposed “Eddison Walters Modern Economic Analysis Theory” in the current study. The goal of the new theory is to prevent potential error in data analysis resulting in data distortion due to the failure to consider the impact of advancement in technology on the data when conducting economic research in the future.

Keywords: Eddison Walters Modern Economic Analysis Theory, Global Financial Crisis of 2007 and 2008, Advancement in Technology, Real Estate Bubble, Financial Bubble, Eddison Walters Risk Expectation Theory of the Global Financial Crisis of 2007 and 2008

INTRODUCTION

The results of several recent studies called into question the analysis of economic data from the United States real estate industry preceding the Global Financial Crisis of 2007 and 2008. Advancement of technology is a disruptive force throughout the economy today. The speed at which technology continues to evolve has resulted in significant changes through the entire economy around the world. As technology continue to evolve, there is no question technology disruption will continue to occur. Economist can no longer rely solely on backward looking historical data when conducting economic analysis. The evolution of the global economy require an understanding of the impact of advancement in technology occurring in the economy as researcher conduct analysis of data to draw conclusions.

The result of recent studies led to the development of “Eddison Walters Modern Economic Analysis Theory”. Data suggesting the false conclusion of the existence of a real estate bubble in the United States real estate market preceding the Global Financial Crisis of 2007 and 2008 was presented in Walters and Djokic (2019). Nonlinear regression analysis for correlation of variables in Walters (2019) resulted in 194.041 Mean Dependent Variable, 0.989 Adjusted R-square, 5.908 Square Error of Regression, and 488.726 Sum-of-Square Residual for the independent variable of “advancement in technology”, and the dependent variable of “home purchase price” preceding the Global Financial Crisis of 2007 and 2008. Walters (2019) concluded advancement in technology was the most significant factor causing home prices to increase preceding the Global Financial Crisis of 2007 and 2008. Subprime mortgage lending and interest rates were rule out as being significant factors causing home purchase price to increase preceding the crisis. Walters (2020) found the rapid adaption of advancement in technology in the mortgage industry and the real estate industry in the United States were the most significant factors contributing to the rapid increase in home purchase price preceding the Global Financial Crisis of 2007 and 2008. The overwhelming evidence point to the failure of considering the impact of advancement in technology on the data as the most significant error responsible for causing distortion in data analysis, leading to the false conclusion of the existence of a real estate bubble preceding the Global Financial Crisis of 2007 and 2008. The researcher proposed “Eddison Walters Modern Economic Analysis Theory” in the current study. The goal of the new theory is to prevent potential error in data analysis resulting in data distortion due to the failure to consider the impact of advancement in technology on data when conducting economic research in future.

Background of Study

The results of several recent studies called the analysis of economic data preceding the Global Financial Crisis of 2007 and 2008 into question. The overwhelming evidence point to the failure of considering the impact of advancement in technology on the data as the most significant error responsible for causing distortion in data analysis, leading to the false conclusion of the existence of a real estate bubble preceding the Global Financial Crisis of 2007 and 2008. The researcher proposed a new theory, in the current research article called “Eddison Walters Modern Economic Analysis Theory”, which was developed to address potential errors from data analysis distortion

due to the failure of considering the impact of advancement in technology on economic data being analyzed in future economic research.

Statement of the Problem

Failure to consider the role of rapid adaptation of advancement in technology on rapid increase in home purchase price in the United States was the most significant error leading to the distortion of data analysis . The error resulted in the false conclusion of the existence a real estate bubble in the United States preceding the 2008 Global Financial Crisis of 2007 and 2008. The researcher proposes “Eddison Walters Modern Economic Analysis Theory”. The goal of the new theory is to address the potential error that result in data analysis distortion when conducting economic research in future.

Purpose of Study

The researcher in the current study provided evidence supporting the development of “Eddison Walters Modern Economic Analysis Theory”. The goal of the new theory is to prevent potential error from data analysis distortion resulting from the failure to consider the impact of advancement in technology on economic data being analyzed in future economic research, such as the error that led to the false conclusion of a real estate bubble preceding the Global Financial Crisis of 2007 and 2008.

Research Question

Does the evidence supporting the need for the development of “Eddison Walters Modern Economic Analysis Theory” to prevent potential error from data analysis distortion in future economic research such as the error that led to the false conclusion of a real estate bubble preceding the Global Financial Crisis of 2007 and 2008?

Hypothesis

Ho: The evidence suggested, the development of “Eddison Walters Modern Economic Analysis Theory” will not assist in the prevention of potential error resulting from the impact of advancement in technology on the data analysis, such as the error that led to the false conclusion of a real estate bubble preceding the Global Financial Crisis of 2007 and 2008 in future economic research.

Ha: The evidence suggested, the development of “Eddison Walters Modern Economic Analysis Theory” will assist in the prevention of potential error resulting from the impact of advancement in technology on the data analysis, such as the error that led to the false conclusion of a real estate bubble preceding the Global Financial Crisis of 2007 and 2008 in future economic research.

Nature of Study and Scope

The current research was a quantitative investigation using secondary data from the Federal Housing Finance Agency Database and the World Bank Database. The focus of the research was to gain an understanding of the need to address the issue of error in data analysis resulting from the failure to consider the impact of advancement in technology on data that was analyzed which led to the false conclusion of the existence of a real estate bubble United States preceding the Global Financial Crisis of 2007 and 2008.

Limitations

The current study considered the need to take steps to prevent error in data analysis resulting from the failure to consider the effect of advancement in technology on data that was analyzed which that resulted in the false conclusion of the existence of a real estate in United States preceding the Global Financial Crisis of 2007 and 2008.

LITERATURE REVIEW

Recent evidence uncovered in several peer reviewed studies raised a number of questions regarding analysis of data that led to the false conclusion of the existence of a real estate bubble in the United States preceding the Global Financial Crisis of 2007 and 2008. It is critical to gain an understanding of errors that may occur in economic data analysis resulting from the failure to consider the impact of advancement in technology on data analyzed in economic research. Steps must be taken to reduce the likelihood of such error in future economic research.

Data analysis conducted in Walters (2018) led to the conclusion there was no financial bubble preceding the Global Financial Crisis of 2007 and 2008. Questions regarding the accuracy of the theory that presented the idea, an abundance of available capital led to a financial bubble, leading to the development of a real estate bubble in the United States preceding the Global Financial Crisis of 2007 and 2008. The development of an alternative theory to explain the cause of the Global Financial Crisis of 2007 and 2008. "Eddison Walters Risk Expectation Theory of The Global Financial Crisis of 2007 and 2008", was developed as an alternative explanation for the cause of the crisis based to the findings of Walters (2018). The results from the research led to additional studies focused on gaining an understanding of factors that contributed economic events leading to the Global Financial Crisis of 2007 and 2008 (Walters, 2018).

Eddison Walters Risk Expectation Theory of The Global Financial Crisis of 2007 and 2008 was developed based on the idea the existence of a real estate bubble preceding the Global Financial Crisis of 2007 and 2008 was a false conclusion (Walters and Djokic, 2019). The Theory suggested, an abundance of media coverage of speculation of the existence of a real estate bubble increased risk expectation so significantly, mortgage lenders became afraid to lend, resulting the complete collapse of the United States subprime real estate market causing the Global Financial Crisis of 2007 and 2008. The development of Eddison Walters Risk Expectation Theory of the Global Financial Crisis of 2007 and 2008 called for analysis of additional variables that likely contributed to economic events causing the Global Financial Crisis of 2007 and 2008. Researchers analyzed home purchase price, mortgage interest rate, and loan-to-price ratio in Walters and Djokic (2019). Analysis of data found no evidence the variables analyzed contributed to the cause of the crisis. The data analysis also suggested subprime mortgage or low interest rates were not likely to be factors that had statistically significant impact on the the Global Financial Crisis of 2007 and 2008. Walters and Djokic (2019) concluded the existence of a real estate bubble preceding the Global Financial Crisis of 2007 and 2008 in the United States was unlikely to have had occurred.

The results of the Walters and Djokic (2019) led to additional research focused on explaining factors that contributed to the cause of the Global Financial Crisis of 2007 and 2008. In Walters (2019) the independent variables, loan-to-price ratio, interest rate, and mobile cellular phone subscriptions (per 100 people) representing advancement in technology were analyzed using nonlinear regression analysis to gain an understanding of the existence of correlation with the

dependent variable home purchase price preceding the Global Financial Crisis of 2007 and 2008 and other independent variables. The results of data analysis found, 194.041 Mean Dependent Variable, 0.989 Adjusted R-square, 5.908 Square Error of Regression, and 488.726 Sum-of-Square Residual between the independent variable representing advancement in technology ,and the dependent variable of home purchase price. The study concluded advancement in technology was the cause of the rapid increase in home purchase price preceding the Global Financial Crisis confirming Eddison Walters Risk Expectation Theory of The Global Financial Crisis confirming the idea of a real estate bubble preceding the Global Financial Crisis of 2007 and 2008 was a false conclusion.

The transformation of the mortgage industry and the real estate industry in United States preceding the Global Financial Crisis of 2007 and 2008 as a result of rapid adaption of advancement in technology was discussed in the literature. The transformation of the mortgage industry in the United States due to rapid integration of advancement in technology by 1995 was discussed in Straka (2000). The transformation of the real estate industry in the United States as a result of rapid integration of advancement in technology by late 1990's was discussed in Muhanna (2000). Rapid adaptation of advancement in technology resulted in between 60% and 70% of mortgage underwriting through customized application scoring models by 1995 (Straka, 2000). The study conducted a survey that presented evidence of significant increase in the adaption of the internet integration of 50% resulting in about 75% all real estate firms with internet presence by the second and third quarter of 1999 (Muhanna, 2000).

Walters (2020) focused on understanding the most significant factor leading to the Global Financial Crisis of 2007 and 2008. The researcher analyzed a number of variables in the study using both linear regression and nonlinear regression analysis. Data on mobile cellular phone subscriptions (per 100 people) in the United States, which was collected from the World Bank Database for the period from 1990 to 2006 was analyzed. The study analyzed mortgage originations of single-family conventional and government-backed mortgages, home purchase price, units of homes sold for the period from 1990 to 2006. Additionally, data for mortgage delinquency rates from the last twenty quarters preceding the Global Financial Crisis of 2007 and 2008 from 2002-Q1 to 2006-Q4, was analyzed in the study. The analysis in Walters (2020) concluded the, failure to consider the impact of rapid adaptation of advancement in technology on mortgage lending in the United States was the most critical factor that led to the false conclusion of the existence of a real estate bubble in the United States real estate market preceding the Global Financial Crisis of 2007 and 2008.

METHODOLOGY

The researcher discussed the methodology used in the current study. The researcher identified the population and sample for the research. Sampling procedures, data analysis plan, threats to validity, and ethical procedures were also included in the methodology section. The researcher concluded with a summary.

Research Question

Does the evidence supporting the need for the development of “Eddison Walters Modern Economic Analysis Theory” to prevent potential error from data analysis distortion in future economic research such as the error that led to the false conclusion of a real estate bubble preceding the Global Financial Crisis of 2007 and 2008?

Hypothesis

Ho: The evidence suggested, the development of “Eddison Walters Modern Economic Analysis Theory” will not assist in the prevention of potential error resulting from the impact of advancement in technology on the data analysis, such as the error that led to the false conclusion of a real estate bubble preceding the Global Financial Crisis of 2007 and 2008 in future economic research.

Ha: The evidence suggested, the development of “Eddison Walters Modern Economic Analysis Theory” will assist in the prevention of potential error resulting from the impact of advancement in technology on the data analysis, such as the error that led to the false conclusion of a real estate bubble preceding the Global Financial Crisis of 2007 and 2008 in future economic research.

Population

Cellular phone subscription per 100 in the United States was collected from the World Bank database. Home purchase price data, loan-to-price ratio data, and interest rate data, in the United States was collected from FHFA database.

FHFA based on data from the Department of Housing and Urban Development, the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), the Rural Housing Service (RHS), and Inside Mortgage Finance Publications. (FHFA.gov, 2020)

Sampling and Sampling Procedures

A number of variables were analyzed in the study. Cellular phone subscription data per one hundred in the United States collected from the World Bank Database for the period from 1990 to 2006 was analyzed in the study. Home purchase price data, loan-to-price ratio data, and interest rate data collected from the Federal Housing Finance Agency Database.

Threats to Validity

The validity of the data for the study was established in the literature. Federal Housing Finance Agency database was established as a reliable source for collection secondary data in the literature. The World Bank Database was established as a reliable source for collecting secondary data in the literature. Because the study focused on the impact of technology on the economic data preceding the Global Financial Crisis of 2007 and 2008, the data analyzed in the study preceded the 2007 to avoid the data being significantly skewed from government intervention policies and the turmoil in the financial market.

Ethical Procedures

Secondary data was collected from the Federal Housing Finance Agency Database and the World Bank Database, which are existing database. There were no human subjects involved in the research.

RESULTS AND DISCUSSION

Data Analysis Results

Analysis of the variables in the research is presented in *Table 1* and *Figure 1*. The results of nonlinear correlation analysis in *Table 1* showed, 194.041 Mean Dependent Variable, 0.989 Adjusted R-square, 5.908 Square Error of Regression, and 488.726 Sum-of-Square Residual. The results of regression analysis in *Figure 1* showed the independent variable of mobile cellular subscriptions (per 100 people) growth closely resembled the growth pattern of the dependent

variable home purchase price data preceding the Global Financial Crisis of 2007 and 2008. There were much less similarities in the growth of the independent variable of loan-to-price ratio, and interest rate with the dependent variable home purchase price in *Figure 1*.

Table 1. Nonlinear correlation analysis of dependent variable, Home Purchase Price and independent variable, Mobile Cellular Subscriptions (Walters, 2019)

Dependent Variable: PURCHASE_PRICE__\$000_				
Method: Least Squares				
Date: 09/03/19 Time: 10:28				
Sample: 1990 2006				
Included observations: 17				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	137.9698	3.180702	43.37716	0.0000
MOBILE_CELLULAR_SUBSCRIPTIONS_	0.896244	0.228003	3.930833	0.0015
MOBILE_CELLULAR_SUBSCRIPTIONS_	0.018236	0.003021	6.036612	0.0000
R-squared	0.990395	Mean dependent var	194.0412	
Adjusted R-squared	0.989023	S.D. dependent var	56.39415	
S.E. of regression	5.908381	Akaike info criterion	6.549406	
Sum squared resid	488.7255	Schwarz criterion	6.696444	
Log likelihood	-52.66995	Hannan-Quinn criter.	6.564022	
F-statistic	721.8214	Durbin-Watson stat	2.087783	
Prob(F-statistic)	0.000000			

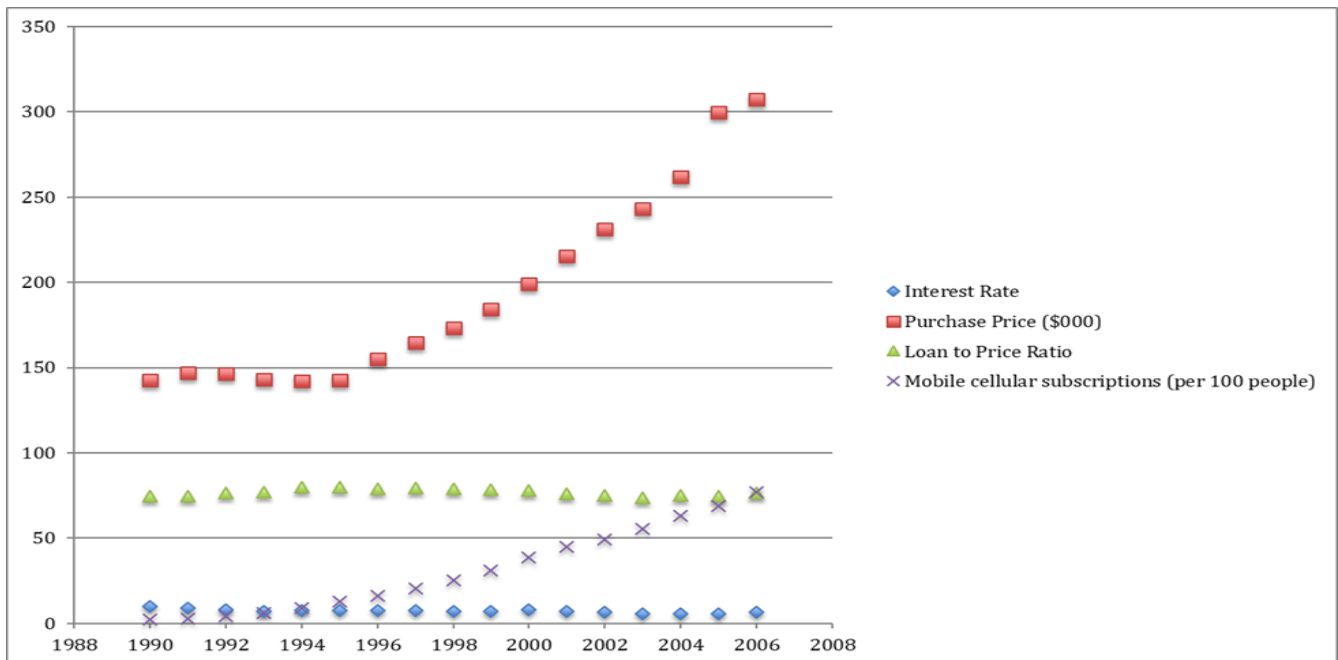


Figure 1. Variables Comparison Graph of independent variables of loan-to-price ratio, interest rate, and mobile cellular subscriptions, with the dependent variable home purchase price for the period preceding the Global Financial of 2007 and 2008 from 1990 to 2006 (Walters, 2019)

Hypothesis Testing

Ho: The evidence suggested, the development of “Eddison Walters Modern Economic Analysis Theory” will not assist in the prevention of potential error resulting from the impact of advancement in technology on the data analysis, such as the error that led to the false conclusion of a real estate bubble preceding the Global Financial Crisis of 2007 and 2008 in future economic research. **The researcher rejected Ho.**

Ha: The evidence suggested, the development of “Eddison Walters Modern Economic Analysis Theory” will assist in the prevention of potential error resulting from the impact of advancement in technology on the data analysis, such as the error that led to the false conclusion of a real estate bubble preceding the Global Financial Crisis of 2007 and 2008 in future economic research. **The researcher failed to reject Ha.**

Research Question Result

Does the evidence supporting the need for the development of “Eddison Walters Modern Economic Analysis Theory to prevent potential error from data analysis distortion in future economic research such as the error that led to the false conclusion of a real estate bubble preceding the Global Financial Crisis of 2007 and 2008? **The found the evidence support the need to develop “Eddison Walters Modern Economic Analysis Theory” to prevent potential error from data analysis distortion in future economic research.**

DISCUSSION

The analysis of data in the current study resulted in evidence supporting the existence of significant bias in data analysis as a result of failure to consider the impact of advancement in technology on economic data preceding the Global Financial Crisis of 2007 and 2008. Due to the overwhelming evidence presented in the current studies, the researcher proposed the “Eddison Walters Modern Economic Analysis Theory”. “Eddison Walters Modern Economic Analysis Theory” presents the idea, the failure to consider the impact of advancement in technology when conducting economic analysis, is a significant error that can significantly bias the data result of analysis.

To avoid error in economic analysis, “Eddison Walters Modern Economic Analysis Theory” calls for researchers to consider the likelihood of data distortion from advancement in technology. The foundation of “Eddison Walters Modern Economic Analysis Theory” is grounded in the laws of economics based on the Latin phrase “ceteris paribus”, all other things being equal. The goal of the new theory is to eliminate the likelihood error in analysis of economic data leading to bias the analysis resulting from the failure to consider the effect of advancement in technology on the data such as mistakes that were made in the analysis of data which led to the false conclusion of the existence of a real estate bubble in the United States real estate market preceding the Global Financial Crisis of 2007 and 2008. The development of “Eddison Walters Modern Economic Analysis Theory” will prevent such errors in the future avoiding another economic crisis of the same magnitude.

CONCLUSION

Advancement of technology is a significant disruptive throughout the economy today. The speed at which technology continues to evolve has resulted in significant changes throughout the entire global economy. As technology continue to evolve, there is no question technology disruption will

continue to occur throughout the economy. Economist can no longer rely solely focus on backward looking historical data when conducting economic analysis. The evolution of the global economy require an understanding of the impact of advancement in technology that is occurring in the economy on an ongoing basis as researcher conduct analysis of data to draw conclusions about the current state on the economy. The development of “Eddison Walters Modern Economic Analysis Theory” is a paradigm shift that will yield significant contribution to economic research. The theory will assist research in gaining and understanding of the true nature of changes in today’s global dynamic economy. This new theory represents a paradigm shift in the economic data analysis that will result in a substantial increase in the knowledge gained from the analysis of economic data. The adaptation of “Eddison Walters Modern Economic Analysis Theory” strengthen the analysis of economic data and can prevent a future economic crisis as a result of data analysis bios due to the lack of understanding of the impact of advancement in technology on the data being analyzed.

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