

Evaluating Conditions in Major Chinese Housing Markets

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A Quick Summary

- Very clear presentation; well motivated.
- Careful Micro data analysis;
- Conclusion: land over-priced; housing probably over-priced as well.
- Looks like the paper is forthcoming somewhere...
- THIS report: ***ONLY SUGGESTIONS FOR FUTURE RESEARCH***

Some Simple Observations

- Seems to be motivated by MACRO questions;
- Approach by MICRO tools

⇒ *What would be missed?*

⇒ Need to address this basic question because it is VERY POPULAR to use , for instance, Poterba user-cost to study housing.

⇒ (Some of the discussion here is inspired by Shilling (2008?), ASSA-AREUEA meeting)

(1) User Cost: Poterba (1984, QJE) vs Kiyotaki-Moore (1997, JPE)

- (upper one)

Eqn (1), p.20

$$UC = (1 - \tau)(r + p) + m + \delta + \beta - \pi^e,$$

Poterba-type UC

- (now consider a Variant of Kiyotaki-Moore, 1997)

$$\Rightarrow UC_t = \left(q_t - \frac{m}{R} q_{t+1} \right)$$

- Leverage; present value; forward-looking

$$\text{where } m = (Rb_t) / (q_{t+1}k_t)$$

(2) House Price: when is it “*too high*” relative to the “fundamental”?

- (traditional approach)

House price/Income ratio exceeds certain threshold

=> HOW to determine *that threshold*?

SORRY for self-advertisement! Leung (2001, 2003):

(both econ. growth and house p are ENDOGENOUS)

$$G_Q = \alpha G_Y$$

- Cheng, Lin and Zeng (2010) extends the result in a much more general setting:
- (productivity growth of goods-production sector versus construction sector; population growth; speed of land expansion...)
- Bottomline: there are theoretical benchmarks;

(3) Specification: price level or price growth?

- (traditional approach): price level
- (a modified hedonic regression?)

SORRY for *ANOTHER* self-advertisement!

Leung, Chow, Yiu and Tam (IERER, forthcoming)

$$G_Q = \alpha_0 + \alpha_1 G_R + \alpha_2 G_W + \dots$$

Overall...

- ***Wu, Gyourko and Deng (2010) is a very interesting, very informative paper.***

(I learn a lot from it)

- ***For future research, we may want to consider some alternative approach?***

Reference:

- Cheng, L., B. Lin and Z. Zeng, 2010, Housing in a Neoclassical Growth Model, *Pacific Economic Review*, 15, 246-262.
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- Shilling, J. 2008, Housing Demand: traditional versus new approach, presented at the ASSA-AREUEA meeting.