Understanding BER's "Understanding Booms and Busts in Housing Market"

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Toulouse School of Economics

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- I have a set of comments.

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- BER explain boom-bust fluctuations in P_t without changes in S nor R.

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- What about other shocks that impact S_t?

- Think of model in which

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and budget constraint is

$$c_t + w_t s_t = y_t$$

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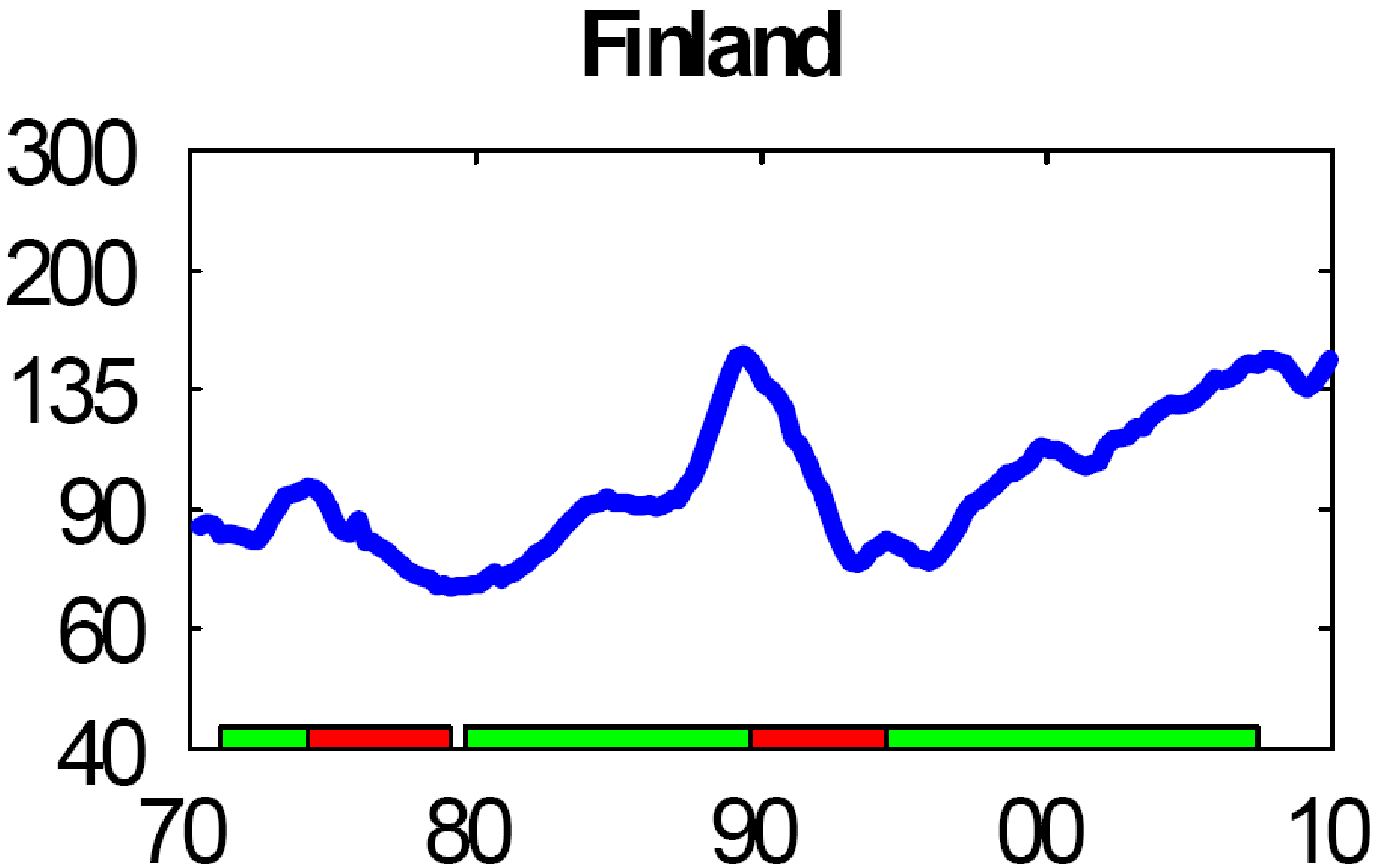
- : Therefore

$$P_t = E_{\Omega_t} \sum_{j=0}^{\infty} \frac{S(w_{t+j}, Y_{t+j}}{R(t, t+j)},$$

any protracted fluctuation in Y will create protracted fluctuations in P.

•: Let's take two real examples:

Index of House Price



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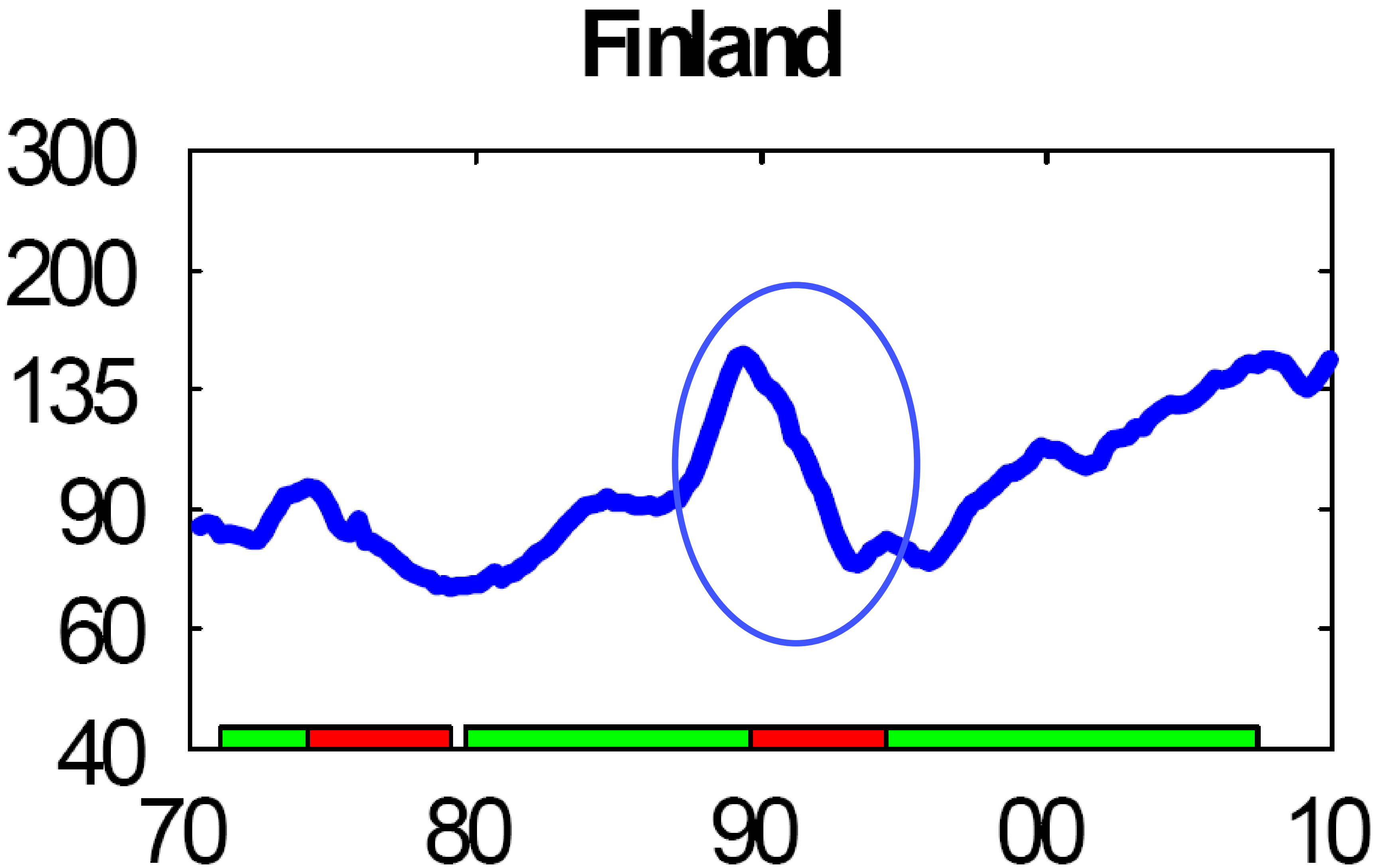

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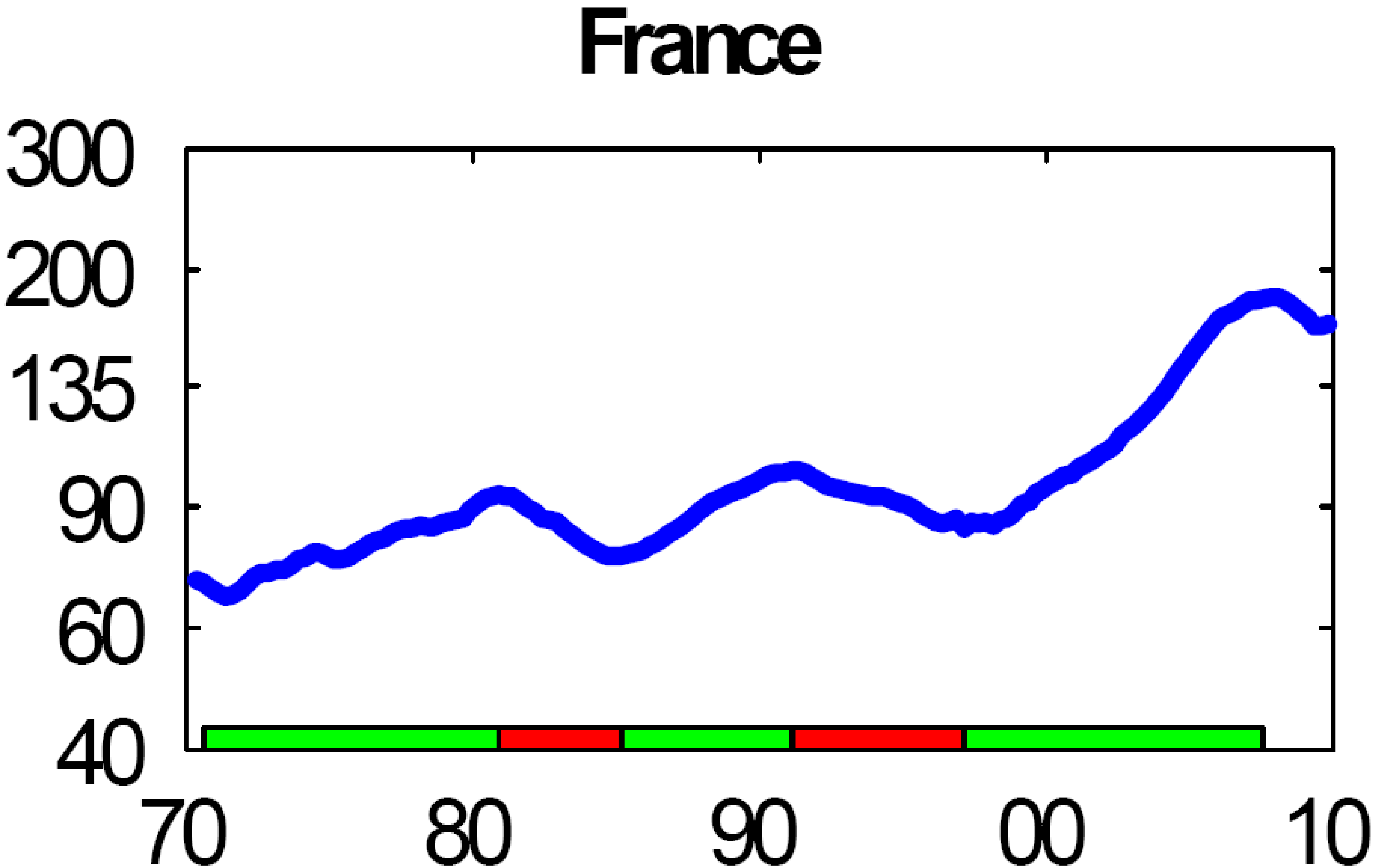

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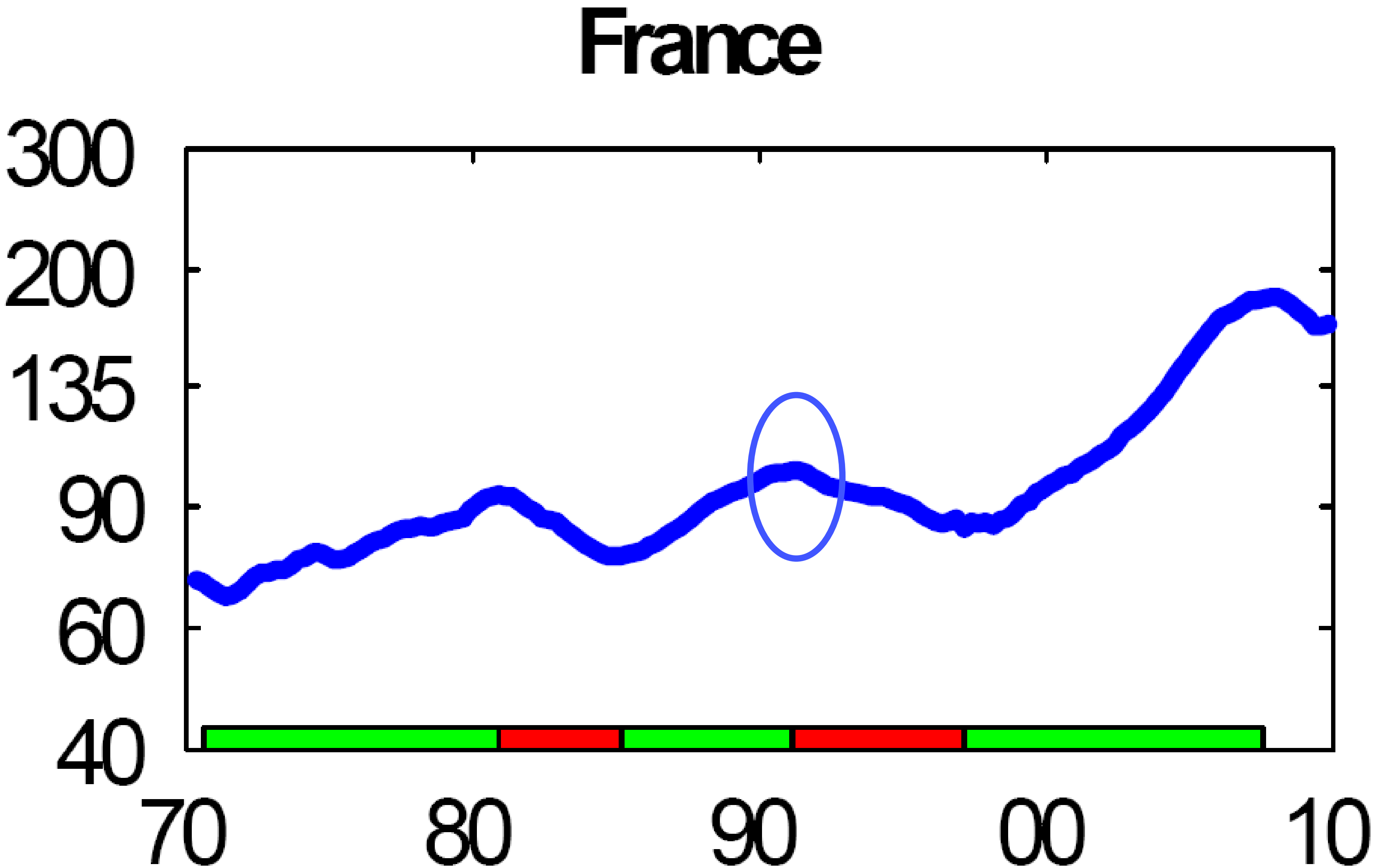

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- : Harder to explain protracted booms and busts in P_t.

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- It is hard to generate protracted movements in P with rational expectations (surprises/revisions/news are not serially correlated)

- BER has chosen another route: agents have different priors, do not learn but "convince" each others

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- Not an obvious question as those different explanations need not to be orthogonal.

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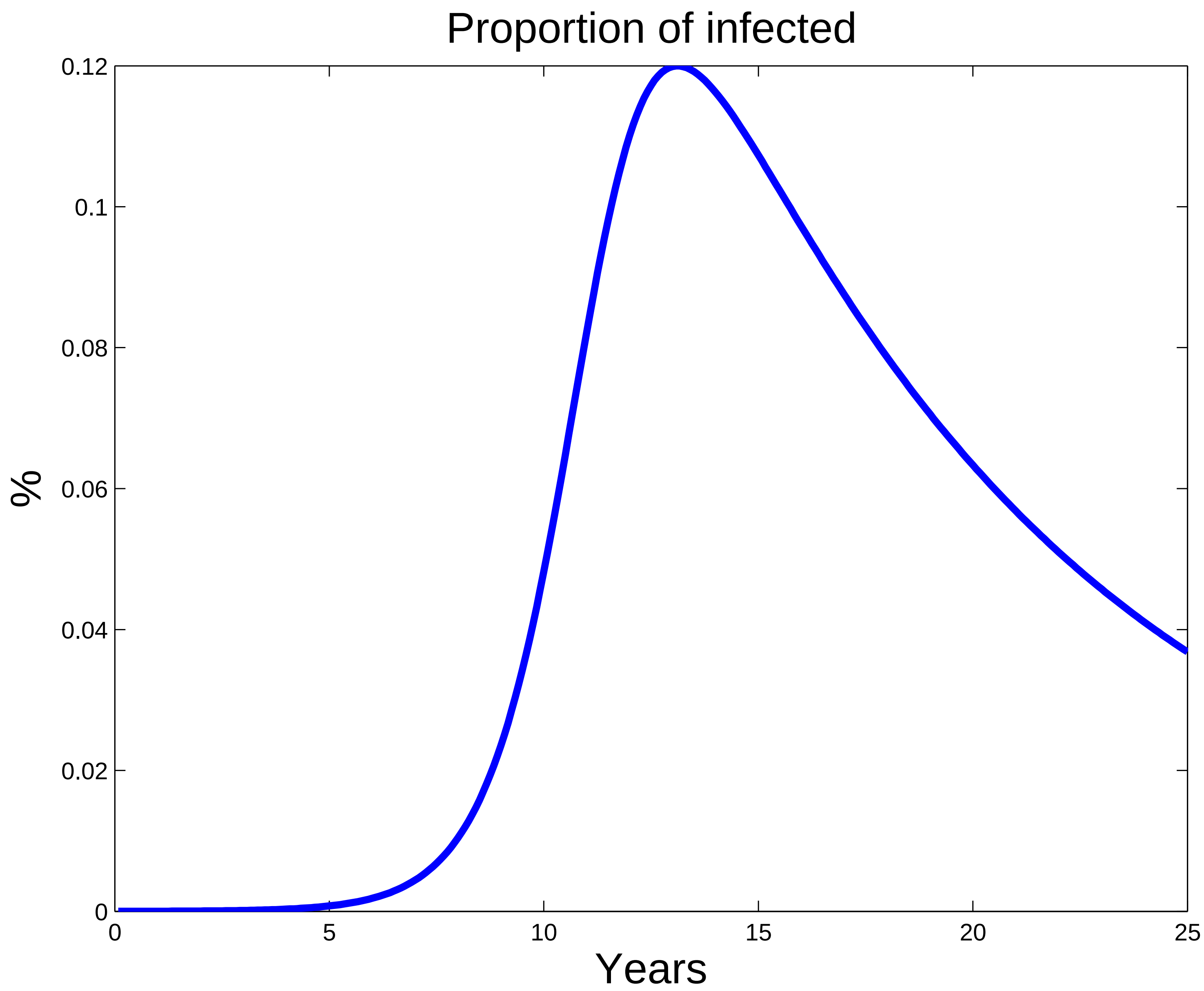
Proportion of infected
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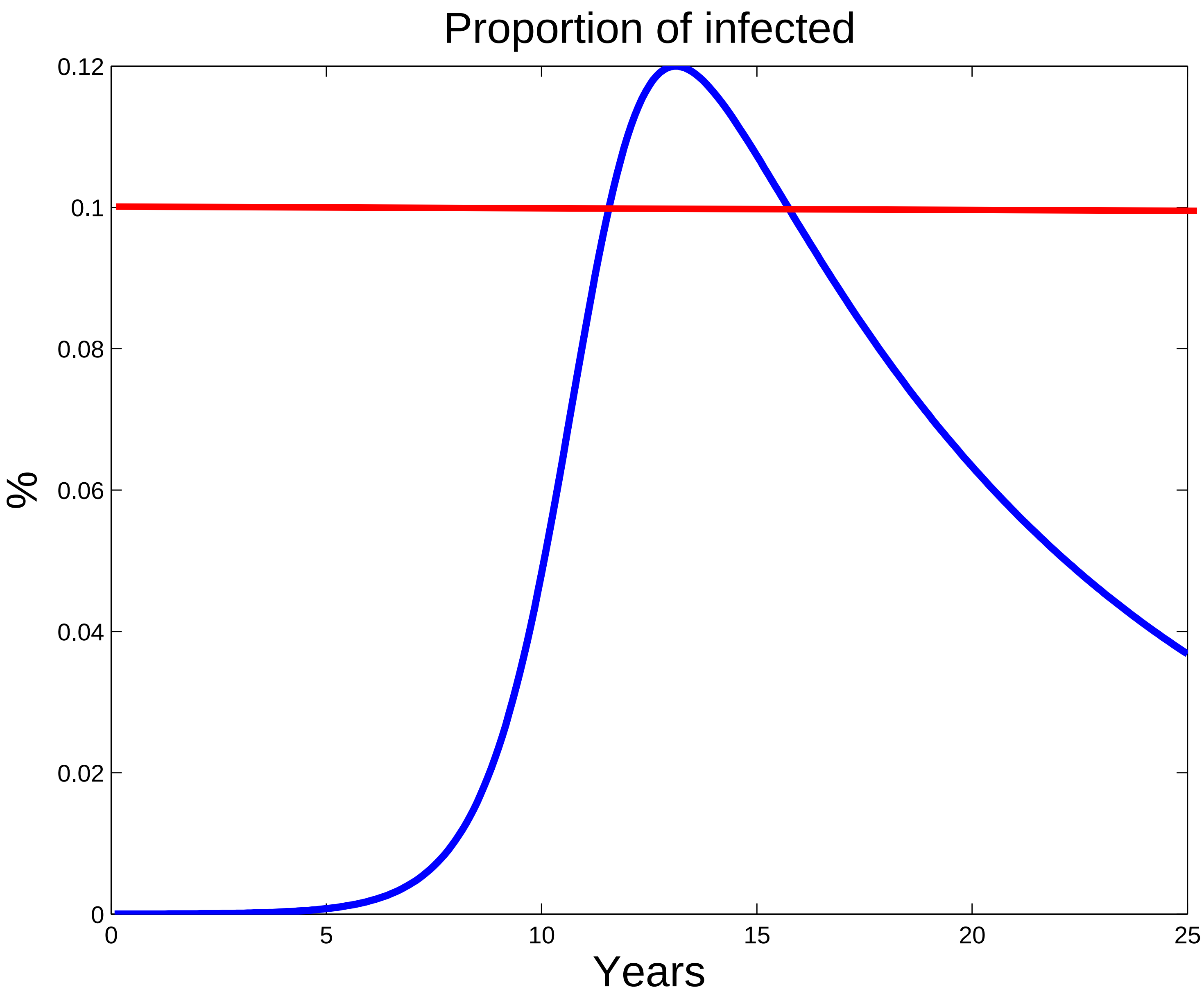
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A Boom–Bust Cycle

- Assume now that infected are less optimistic than the others.

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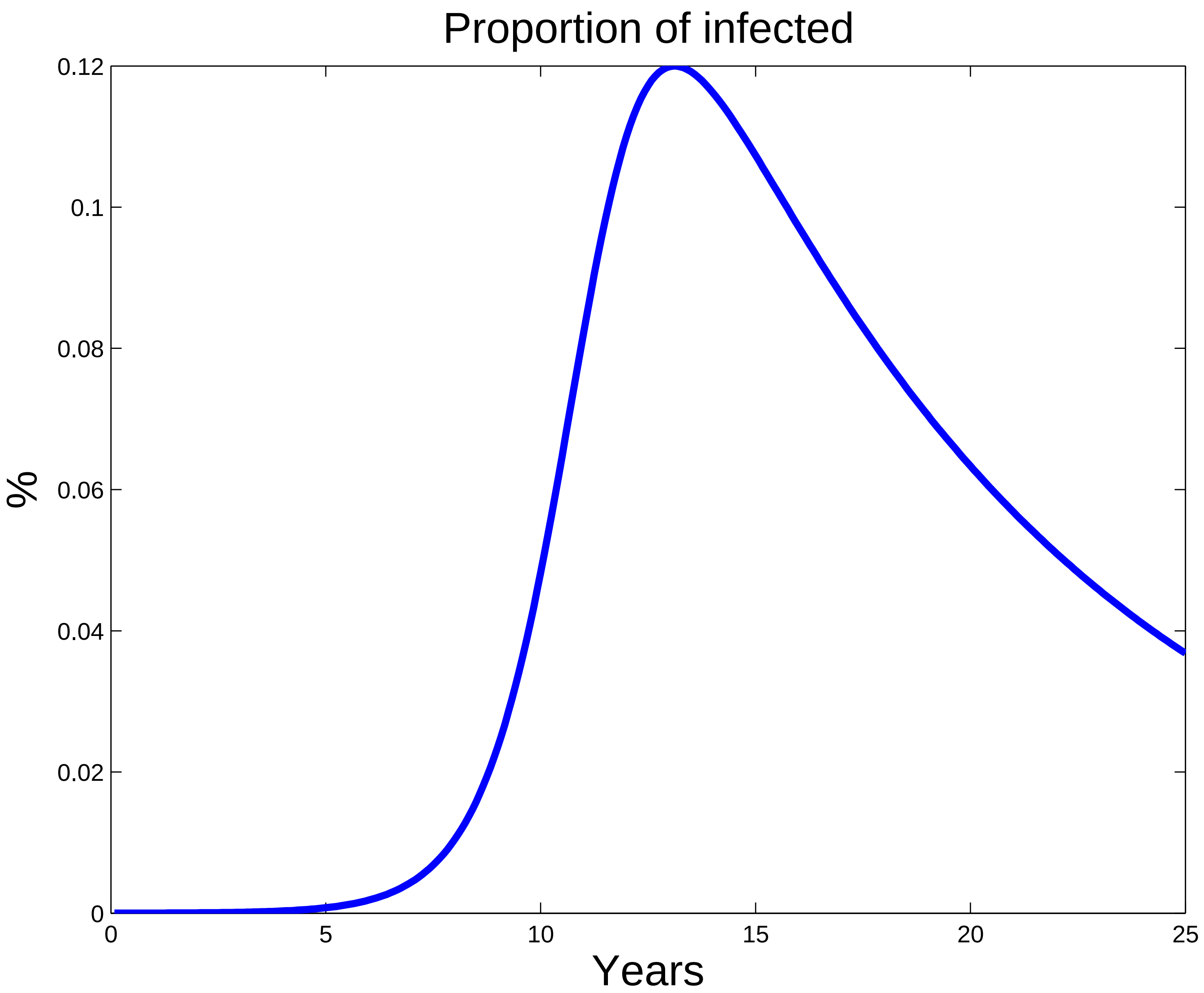

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- It would be nice to make a variance decomposition of housing price into a local and a national component.