Discussion of: Expectations during the US Housing Boom: Inferring Beliefs from Actions by Ben David, Towbin and Weber

Paul Willen

Federal Reserve Bank of Boston and NBER

Financial Dysfunction Conference
LSE, June 6, 2019

Disclaimer

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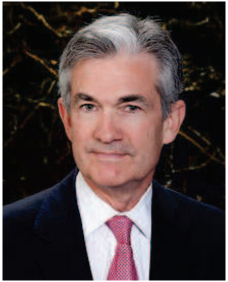

- When I say "we", I don't mean Jay and me.

Intuition

Rent

- Households need a flow of housing services

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- Buy:
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  - increases demand for milk
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- Changed expectations
  - increases demand for future milk
  - affects only price of cow

The model

- Gordon Growth Model

$$\frac{\text{Price}}{\text{Rent}} = \frac{1}{r - g}$$

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Understanding this paper

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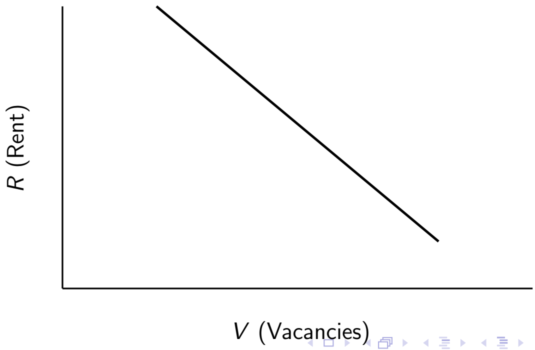

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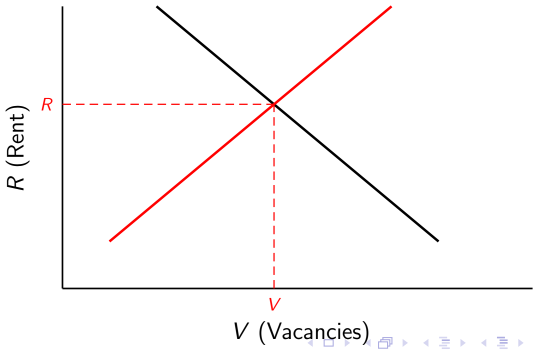

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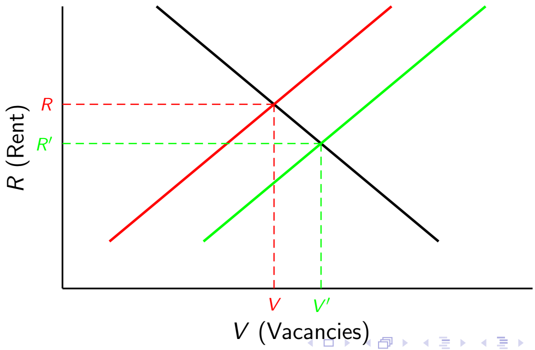

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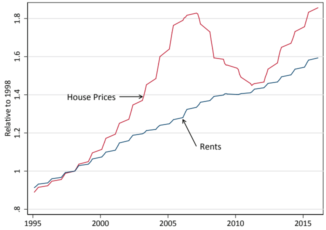

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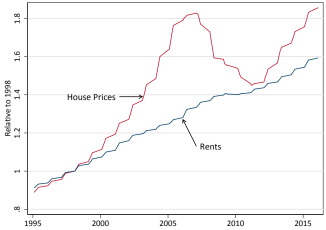

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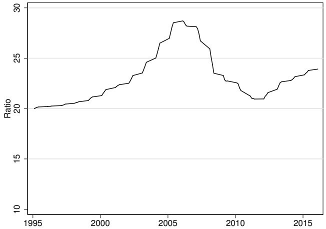

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- Micro data with prices and rents on owned and rented property

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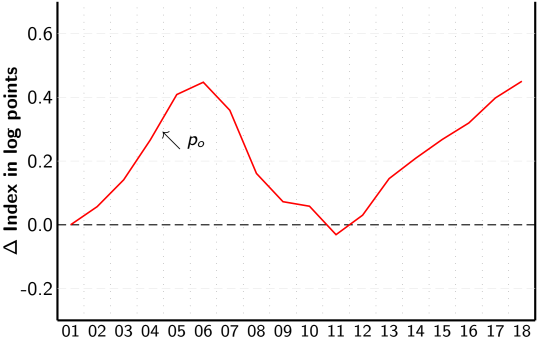

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  - Rent data: renter-occupied units
  - Price data: owner-occupied units
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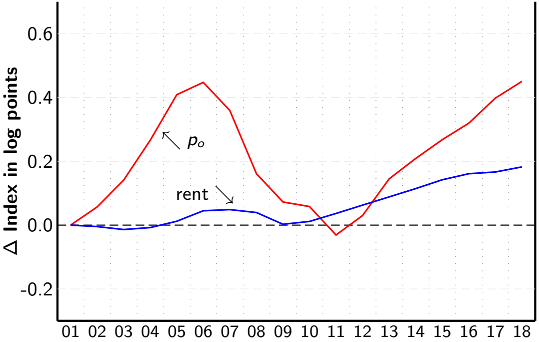
Begley, Loewenstein and Willen (2019)



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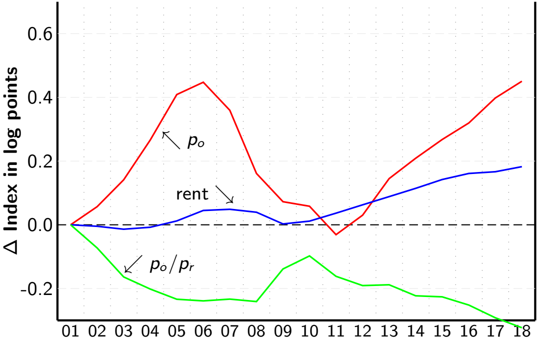

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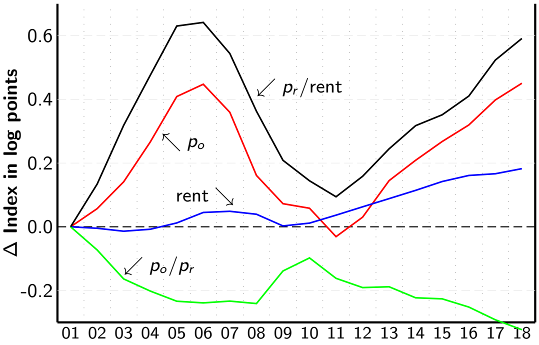

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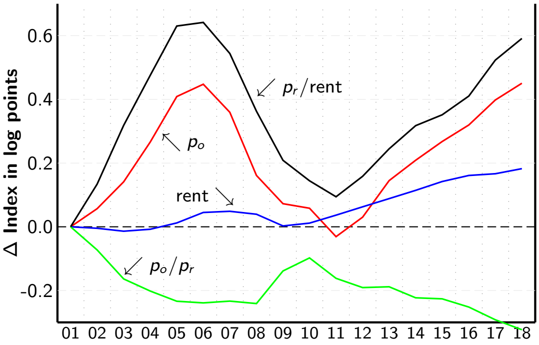

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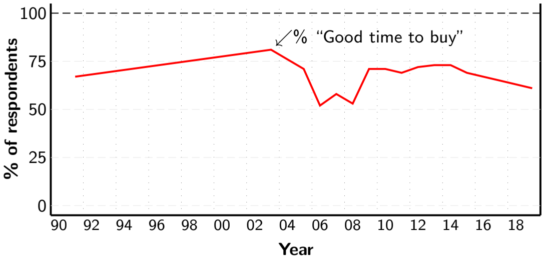

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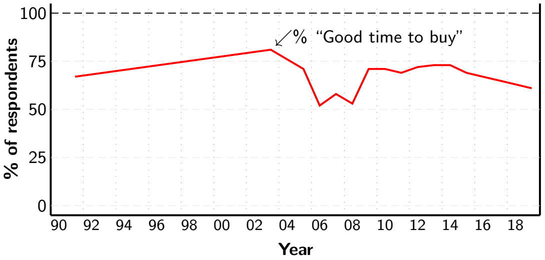

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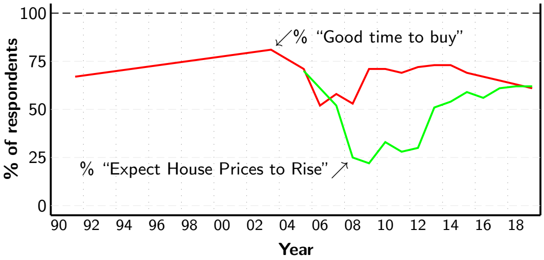

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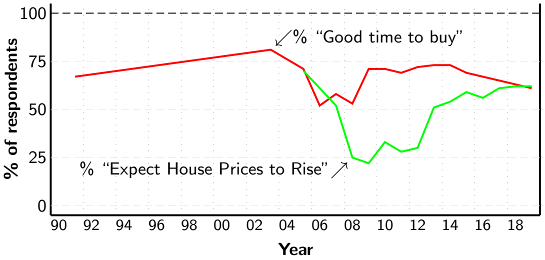

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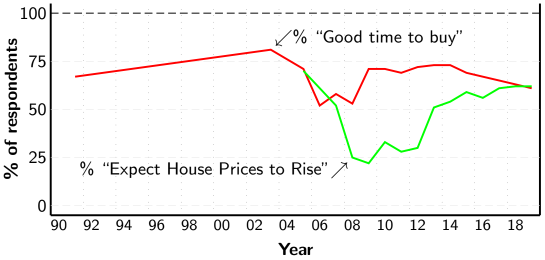

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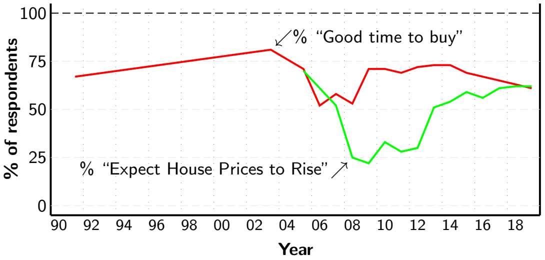

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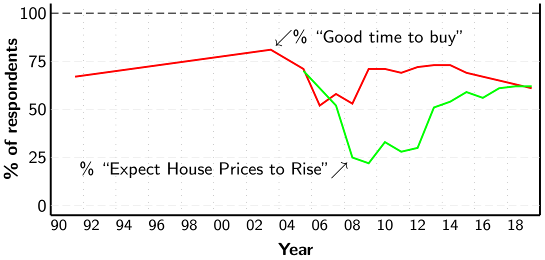

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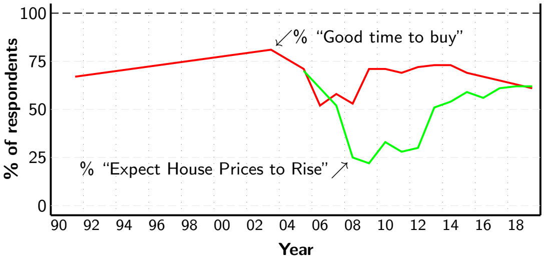

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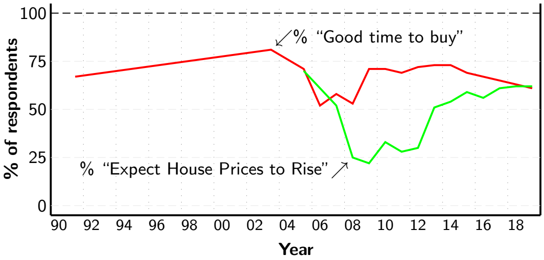

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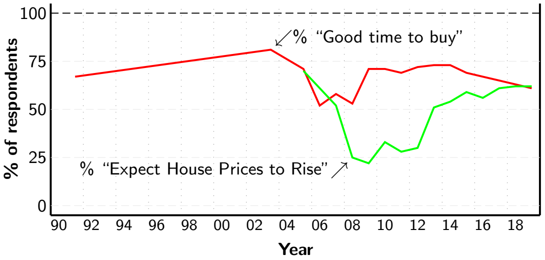

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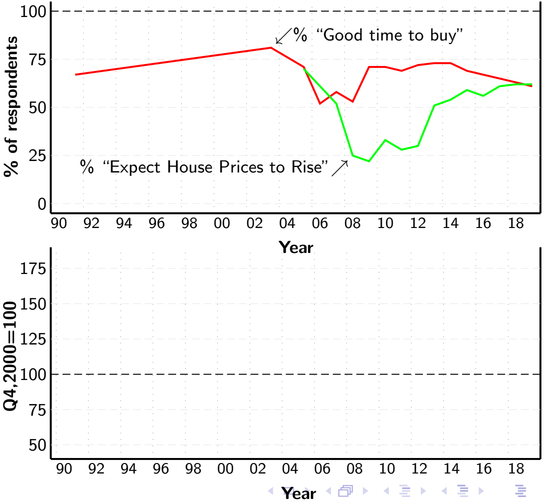

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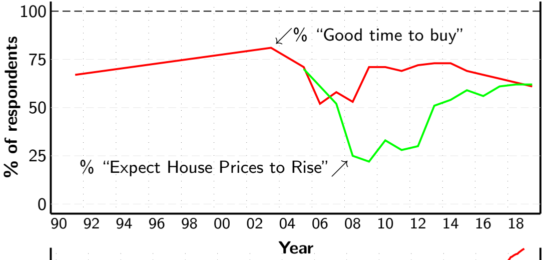

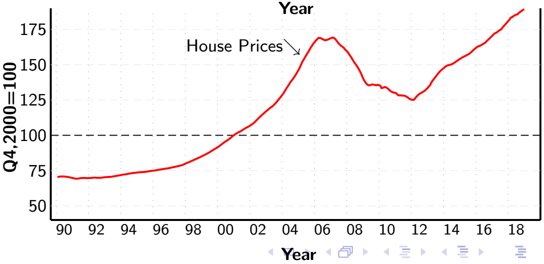

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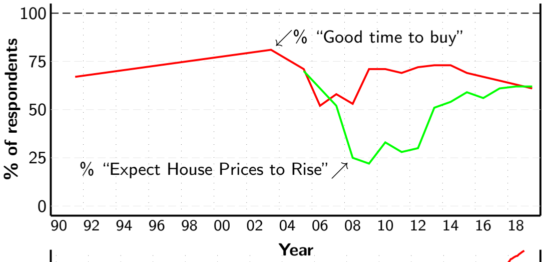

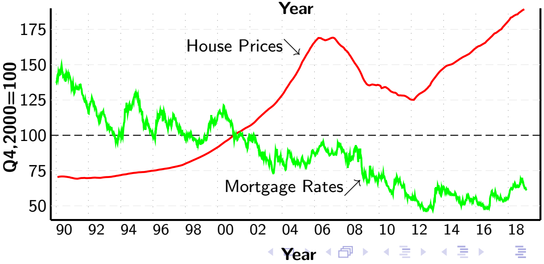

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(2)		8% HPA for life	3.2%	15%
(3)	Base	HPA slows to 5% by end-2005	5.6%	50%
(4)	Pessimistic	0% HPA for the next 3 years 5% thereafter	11.1%	15%
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The slide you've all been waiting for...

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- The end.