

Credit expansion and boom-bust cycle of housing prices

September 2022

Masaya Sakuragawa (Keio University)

Satoshi Tobe (Kwansei Gakuin University)

Abstract

This paper empirically tests for the channel through which credit supply expansion affects housing prices, using a dataset of an unbalanced panel of 20 OECD countries that covers the period from 1980 to 2019. Our empirical strategy combines instrumental variables with local projections. Our estimators of LP-IV identify the causal effect of credit on the boom first and bust later of housing prices. The estimated interval of the boom-bust cycle is almost five years, as is consistent with many episodes on asset bubbles. Impulse responses of interest rates suggests that our identified shock is the supply shock rather than the demand shock. The estimators of LP-IV show deeper boom and bust than those of S-VAR.

Keywords: Credit, Housing Prices, Local Projection, Shift-Share Instrument

JEL classification: G12, G21