

Report outline:

Real Estate Bubble in China

Thesis: China is experiencing a real estate bubble following the U.S. economic crisis, which has raised serious concerns since it may cause extraordinarily large impact not only on the Chinese economy, but also affect globally when the bubble burst. However, considering banking ideas and space using can be effective solutions.

- I. Several researchers identified the existence of real estate bubble in China, and they concluded various reasons that may causes such problem.
 - A. Definition of real estate bubble (Hui, Lo, Chen & Wang, 2012)
 - B. Evidence of real estate bubble in China
 1. China housing prices are out of reach for ordinary Chinese citizens (CNN, 2012).
 2. China's property prices enjoys sharp increase (Ren, Xiong & Yuan, 2011 & CRCC ASIA, 2012).
 - C. Possible causes of Chinese real estate bubble
 1. Positive correlation between household income and housing prices (Hui *et al.*, 2012).
 2. Hot money
 - a. The flow of speculative funds between countries in order to earn the highest short-term interest rates (Zhang & Fung, 2006).
 3. Significant events
 - a. Beijing Olympics
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- II. Real Estate bubble should be treated as soon as possible since it can give immeasurable negative effects to the economy system and the society.
 - A. Real estate bubble can also give serious impact on global economy (Beskovnik, 2005)
 - 1. Trade Industry
 - a. One-fifth of the world's population
 - b. Full of natural resources
 - 2. Center off world produce factory
 - B. Influence China general public
 - 1. Amounts of "Housing Slaves" (people struggling to pay the mortgage) increase (Bloomberg, 2013)
 - 2. Health problem
 - a. Hypertension (Nwogugu, 2011).
 - 3. Public relationship problem
 - a. Failed marriages.
- III. Although several countries including China have fortunately introduced several solutions, not all of the policies are workable.
 - A. Higher interest rates can only solve problem temporally (McBeth, 2013)
 - 1. China
 - a. Introduce government policy
 - b. Reason of why it doesn't work
 - i. May put unwated pressure on economy
 - ii. Easily forget the fundamental issue such as neighborhood impact.

B. Perumahan Rakyat 1 Malaysia (PR1MA)

1. Subsidy to citizen
2. Space using
3. Focus on citizens life quality
4. Still on testing level

C. 10/80 rule

1. New Zealand
 - a. Focusing on using banking idea.
 - b. Only 10 percent of new mortgages underwritten are allowed to have a loan to valuation ratio over more than 80 percent.

IV. Recommendation: Intelligently using banking ideas such as the 10/80 rule can be very effective, such statement can be proven by a successful example - New Zealand.

Moreover, citizen life quality is also a very important factor.

V. Conclusion: Real estate bubble has been one of the hardest economic crisis to solve, and it can also bring a lot of negative effects once it burst. It is very important for the Chinese government to treat such problem effectively as soon as problem. Applying intelligent banking ideas and paying more attention on citizen life quality may be more helpful then just raised the house interest rates.

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