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Finance and Economics Discussion Series: The Long-Run Relationship Between House Prices and Income: Evidence from Local Housing Markets

By Joshua Gallin

BiblioGov. Paperback. Book Condition: New. This item is printed on demand. Paperback. 22 pages. Dimensions: 9.7in. x 7.4in. x 0.1in. The proposition that housing prices can't continue to outpace growth in household income (Wall Street Journal; July 25, 2002) is the received wisdom among many housing-market observers. More formally, many in the housing literature argue that house prices and income are cointegrated. In this paper, I show that the data do not support this view. Standard tests using 27 years of national-level data do not find evidence of cointegration. However, it is known that tests for cointegration have low power, especially in small samples. I use panel-data tests for cointegration that have been shown to be more powerful than their standard time-series counterparts to test for cointegration in a panel of 95 metro areas over 23 years. Using a bootstrap approach to allow for cross-correlations in city-level house-price shocks, I show that even these more powerful tests do not reject the hypothesis of no cointegration. Thus the error-correction specification for house prices and income commonly found in the literature may be inappropriate. This item ships from La Vergne, TN. Paperback.



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