Housing Wealth and Consumption The Role of Heterogeneous Credit Constraints

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We quantify the role of heterogeneity in households' financial constraints in explaining the large decline in consumption between 2006 and 2009. Using household-level data, we show that in addition to a direct effect of changes in house prices, there are sizable indirect effects from general equilibrium feedback and bank health. About 60% of the aggregate response of consumption to changes in house prices is explained by ex-ante and ex-post financial constraints, where only a specific set of households face binding ex-post financial constraints as a result of declining house prices. We find a negligible wealth effect once we account for the role of heterogonous financial constraints.

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