**Housing Bubbles and Support for Incumbents**

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For most individuals, their most important economic asset is their home. The value of housing is a core element of individual's permanent income. Accordingly, we would expect that individuals to be attuned to how government policy affects the price of housing. At the same time, extracting credible signals about the effects of government policy is difficult. Voters are thus faced with the challenge of making accurate inferences about government policy. In this paper we suggest that one way they do so is by taking cues from changes in house prices in their local area.

The theoretical underpinning of this prediction comes from the theory of economic voting, which suggests that people use economic shocks to make inferences about the priorities and characteristics of governing politicians. In particular, voters may hold government accountable for changes in local house prices because they infer from these changes that the economic policy of the government is favorable to themselves (an egotropic motive), their local community (geotropic) or to the economy as a whole (sociotropic).

We are not the first to suggest that voters make inferences about the government based on their local economy. Previous literature has looked at whether voters hold government accountable for economic indicators such as the local unemployment, but with mixed results. However, we believe that housing prices are an ideal case for contextual learning, because house price changes are very tied to specific locales. A notion embodied in the realtor motto: “Location, Location, Location”.

Turning to empirical context, we exploit economic variation from the burst of housing bubbles in several Western economies in .. In this paper, we look at one country, Denmark, where government monetary and tax policies contributed to creating unusually high volatility in housing prices, both by historical and cross-national standards. The burst of Denmark's housing bubble thus constitutes a useful case for examining the impact of policy-induced housing bubbles.

We ask if local differences in this--partly policy-driven--expansion and contraction of real estate prices shaped support for governing parties. Specifically, we test whether voters living in areas affected by short-term housing price changes responded by rewarding politicians where prices increased and/or punished where prices decreased. We do so using two complementary empirical approaches. First, we link detailed registry data on local housing prices to election results at the precinct level across five national elections, allowing us to study whether *within-district* differences in housing prices are related to differences in voter support for the incumbent.

Second, to test the hypothesized causal mechanism, that voters are able to make inferences about government based on the state of their local housing market, we zoom in on individual voters’ local contexts. We utilize uniquely detailed data from Danish registries, which allow for precise measures of how individuals’ neighborhoods--measured at low levels of aggregation--were affected by the housing bubble. We link data on neighborhood price changes to a nationally representative panel survey running from 2002 to 2016.

The paper advances the empirical study of the political effects of local economic shocks in several ways. First, unlike previous studies, we measure local economic conditions at a very small geographical level. Second, using panel data on both voters and precincts, we are able to take stable differences between individuals and local contexts into account, which is rarely done in the extant literature. Third, whereas previous studies have tended to rely on sample-based measures of local economic conditions, we rely on population-based measures, i.e. measures based on all housing sales in the economy.

Preliminary results suggest that voters do in fact factor in local housing price changes when deciding whether to vote for the incumbent government. These findings shed new light on how voters react to economic shocks in the local context, and in turn the incentives reelection-minded politicians face when dealing with housing bubbles. Since voters appear to react to changes in the local economy, the findings suggest that reelection-minded politicians should design policies with a view not just to the economy as a whole, but also the geographic distribution of economic grievances.