If the Chinese government will interpose real estate market or not, and how

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In the report I have written before, I explain the crisis does Evergrande met and the influence to other characters in the market. In this report, I’m going to talk about if the government will help realty business or not, and how can government influence realty business.

We know, GDP is the value that people lived in a country product in one year. People earning money by producing, so it is easy to think the money that all citizens in a country earns is equal to the GDP in that year. However, if we add banks into the market, the situation will change. People can loan money from banks, and repay in the future. So, the money loan by the banks is actually comes from the GDP in future. There is a premise, people can repay the money in the future. There is a noun in the economy called ‘credit system’. If people loan to much money and can not repay it, the GDP in future will be low, to compensate for the money they loaned. In this situation, the credit system is break. There are some investors loan money from banks, and put it into the real estate market. In this situation, houses are a kind of investment good. If the price of houses goes down, investors will lose money, and they will not have enough money to pay their loans. The final result is the economic development in the future stop or decrease.

There are many ways can keep people from getting into debt, in summary is asking the government giving money to these people in debt. The government often has some spare money, not run into the market, but for facing the risk. When the market falls, the government will put these money into the market, economists called it ‘stimulate the economy’, fundamentally pay off the debt. These money won’t paying these people in debt directly; they should be punished or they will make the mistake again. If the government can aware people loans too much and will keep going, the government can put up the loan interest rate, or limit people loaning. For example, there are many cities in China has the rule that a people can only buy one house. If the market begins falling, the primary task for the government is control the unemployment rate. Only if people are producing, people can earn money. The government can buy service or product from companies, so that these companies will keep on going, and hiring workers.

Evergrande is the one who loans too much from banks, but can not pay for it. In China, there are many real estate companies that over loaning, Evergrande is the first one face the problem of capital chain break. Chinese government will interpose the market for sure, but probably not now.