HOUSING ECONOMICS: A BEHAVIOURAL ECONOMICS RESEARCH AGENDA

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What is Housing Economics?

• Sub-discipline or field of applied economics
• As a complex commodity it provides inherent challenges for the economics researcher
• Predominantly a microeconomics field, its importance as a sector of the economy and its integration to finance and aggregate consumption have meant since the 1980s that it has become part of macroeconomic consideration, too
• Largely a problem-focused sub-discipline:
  - how do we reveal and understand complex processes?
  - how to analyse housing problems and propose efficient and fair responses?
  - can different economic approaches help?
Durability

Heterogeneity

Spatial Fixity

Joint Good

Pervasive State Intervention
Micro Topics

- Demand and supply elasticities
- Price studies
- Industrial organisation
- Market studies including segmentation
- Housing search and other individual choice problems e.g. mobility decisions, mortgage choice, tenure choice
- Analysis of interventions: supply-side v demand side; public housing; land planning systems; non-profits; taxation
- Cross sector studies: labour markets; social security; land markets; local economies
- Further complexity: neighbourhood effects
Macro

- Traditional focus
- 1980s boom and bust and financial deregulation attracted mainstream interest and use of co-integration techniques, etc.
- Two-way relationship between housing and economy
- Equity withdrawal, housing prices, borrowing, debt and consumption all locked together in a pro-cyclical fashion
- Controversies continue
- The role of housing in the GFC, recession and its aftermath
- Economic inequality, Picketty and housing wealth
- Housing and taxation is also a macro issue
An Overview of Previous Behavioural Research in Housing Economics

• Critique of neo-classical housing economics
• The house purchase process and housing choice
• The mortgage choice and policy reform (Shiller)
• Loss aversion and house prices (Genovese and Mayer, QJE, 2001)
• Endowment effects and other biases e.g. anchoring
• Flood risk and discounting the future (Pryce)
• Wealth portfolio behaviour (Quigley) – mental accounting
My Own Interests

- Housing choice behaviour in market and non-market settings
- Industrial organisation and non-profits (social housing providers)
- Equity withdrawal and consumption behaviour
- Housing market frenzy effects
- Effective housing policy reform
Figure 1. Housing market mobility, search and choice decisions.
A Research Agenda

• Individual housing/mortgage choices, biases and their implications
• Loss aversion and market behaviour
• Expectations, bubbles and herds
• Building out the Marsh and Gibb framework
• Mental accounting, individual consumption and housing wealth decisions
• Applying ‘scarcity’ thinking to non-profits (Mullainathan & Shafir)
• Interdisciplinary and related methodological issues
• Questions of technique and approach
Selected Reading


• All available on request from KG