

ECON 5352: Housing Economics
2023-24 Spring
Department of Economics, HKUST

Instructor: C.Y. (Eric) NG Email: ecyng@ust.hk TA: Cindy MOK Email: cindymok@ust.hk	Office: LSK 6016D Office: LSK 6066	Lecture: Mon 12:00PM - 02:50PM Room: Rm 1027, LSK Bldg Course website: https://canvas.ust.hk
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Course Description

Housing, unlike other goods, has its unique characteristics in terms of heterogeneity, durability, and spatial fixity. These suggest that conventional economic concepts need to be readdressed in order to analyze the microeconomic issues of housing. In addition, a significant number of households borrow mortgages to finance their home purchases. A substantial collapse in housing prices might lead to negative equity for leveraged households and reduce their consumption and investment thereafter. The macroeconomic implication of housing market dynamics can be significant to the aggregate economy. The first part of the course focuses on microeconomic issues covering housing demand and supply analysis, models of housing and rental markets, and rationales/effects of public housing policies. The second part emphasizes the macroeconomic issues including the stylized facts on housing market dynamics, causes and consequences of housing market fluctuations, and housing market spillovers. The course objective is to develop analytical framework by which students can address both the microeconomic and macroeconomic issues of housing.

Prerequisites

ECON 5130 AND ECON 5140 AND ECON 5280

Program Intended Learning Outcomes (PILOs)

Upon successful completion of this course, students will be able to:

1. Apply the microeconomic concepts and models to conduct supply and demand analysis of housing markets. (PILO 2, 4, 6, 11)
2. Understand the economic rationales and effects of public policies on housing. (PILO 2, 4, 11)
3. Apply the macroeconomic concepts and models to analyze the dynamics and spillovers of the housing market. (PILO 2, 4, 5, 6, 11)

Assessment Scheme

- Case Study Analysis (Group work*, due on April 14): 15%
- Literature Review Project (Group work*, due on April 30): 45%
- In-class Test (Individual exam, May 6): 40%

*Please form a group of maximum 5 members. Please email the group information (names and student numbers) to the instructor by Feb 16 (the last date of add/drop period). To prevent free-rider problem, we may conduct peer evaluation to assess individual contribution to the group.

Course Outline

1. Housing Demand, Supply, and Equilibrium Analysis (Weeks 1-3)
 - Housing as a standard commodity
 - Housing as a heterogeneous commodity
 - Housing in a spatial context
2. Role of Government in the Housing Market (Weeks 4-5)
 - Rationales for housing policies
 - Policies for equity and efficiency
 - Effects of housing policies
3. Housing and the Macroeconomy (Weeks 5-6)
 - National models of housing and mortgage markets
 - Stylized facts on housing market dynamics
4. Housing Market Fluctuations and Spillovers (Weeks 6-9)
 - Determinants of housing market booms and busts
 - Sources and consequences of housing market fluctuations
 - Business cycle models with housing market
5. Subprime Mortgage Crisis and Financial Crisis of 2007-2009 (Weeks 9-10)
 - Causes and consequences, and policy implications
6. Applications for the Housing Markets in Hong Kong and China (Weeks 10-11)
 - Modeling Hong Kong residential property prices
 - China's Housing Market: Challenges and Policy Implications

Learning Resources

There is no required textbook. We use lecture slides for teaching. All teaching materials (including lecture slides, references of lecture slides, and supplementary reading materials) are downloadable from CANVAS.

The content of the course draws on various sources, including books, academic articles, and policy papers. Please refer to the following list for your reference. Those references marked with an asterisk are used heavily in preparing the lecture notes.

References:

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Case, K.E., Shiller, R.J., 2003. Is There a Bubble in the Housing Market? *Brookings Papers on Economic Activity 2*, 299–361.

Dokko, J., Doyle, B., Kiley, M.T., Kim, J., Sherlund, S., Sim, J., Van den Heuvel, S., 2009. Monetary Policy and the Housing Bubble. *Finance and Economics Discussion Series*, Divisions of Research & Statistics and Monetary Affairs Federal Reserve Board, Washington, D.C. 2009-49.

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- Glaeser, E., Huang, W., Ma, Y., Shleifer, A., 2017. A Real Estate Boom with Chinese Characteristics. *Journal of Economic Perspectives* 31 (1), 93–116.
- Koss, R., Shi, X., 2018. Stabilizing China’s Housing Market. *IMF Working Paper* WP/18/89.
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- *Ng, E.C.Y., 2015. Housing Market Dynamics in China: Findings from an Estimated DSGE Model. *Journal of Housing Economics* 29, 26–40.
- Ng, E.C.Y., Feng, N., 2016. Housing Market Dynamics in a Small Open Economy: Do External and News Shocks Matter? *Journal of International Money and Finance* 63, 64–88.
- Shiller, R.J., 2009. *The Subprime Solution: How Today’s Global Financial Crisis Happened and What to Do About It*. Princeton University Press, Princeton.

Academic Policy

Dishonesty or plagiarism will not be tolerated. Any student violating HKUST Academic Integrity and Honor Code (<https://registry.hkust.edu.hk/resource-library/regulations-student-conduct-and-academic-integrity>) will be subjected to disciplinary procedure.