Spatial Economics Research Centre

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Can cheap credit explain the housing boom?

IPPR think so, and in their new report call for caps on mortgages and tighter regulation of lenders to avoid housing market bubbles.

In the US, in contrast, a paper from Ed Glaeser, Jo Gottlieb and Jo Gyourko, argues that credit market policies had very little to do with the US housing boom: "The evidence [...] casts doubt on the view that easy credit can explain the bubble. It isn't that low interest rates don't boost housing prices. The do. It isn't that higher mortgage approval rates aren't associated with rising home values. They are. But the impact of these variables, as predicted by economic theory and as estimated empirically over many years, is too small to explain much of the housing market event that we have just experience [The more technical version of the paper is available here.]

Not clear to me, yet, how to square these two contrasting conclusions.

Posted by Prof Henry G. Overman on Tuesday, May 31, 2011 G+1 Recommend this on Google

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