House Price Beliefs and Mortgage Leverage Choice

by

Bailey Davlia Kuchler Stroebel

Discussion by Christopher Carroll[1]

[1] Johns Hopkins University
ccarroll@jhu.edu

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    - Distant friends can share their bubble with you

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- Use nonrational 'infection' as an exogenous shifter of $\mathbb{E}[\Delta p^h]$
- See whether people make same choices that would be rational if their $\mathbb{E}[\Delta p^h]$ were rational

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Last is focus of this paper.

- Develop a Model In Which It Would Be Rational

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    - ... and the heterogeneity affects those choices

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Conclusion: Kind of person more likely to buy (Ab), is kind of person who would have low downpayment *if* they *do* buy

A Classic Heckman (1974) Selection Problem, Right?

b – Available 'balances' that can be used for down payment

d – downpayment

You buy if $b + \alpha\,\mathbb{E}[p^h] + \epsilon > 0$
If you buy, you choose downpayment of

$$d = \gamma b + \omega\,\mathbb{E}[p^h] + \zeta \tag{1}$$

But authors do not observe b. They estimate:

$$d = \breve{\omega}\,\mathbb{E}[p^h] + \eta \tag{2}$$

But then $\breve{\omega}$ is biased estimate of ω, because $\text{cov}(\eta, \epsilon)$ is nonzero. Problem is generic if $\exists$ *any* unobserved b affecting both purchase decision and downpayment.

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My bias: Finance models imported to household choice always get a lot deeply wrong. Here: No risk aversion ...

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Δ Friends p^h	1999-2006	2008-10
η_1:Mean	-0.032	-0.278^{***}
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   - I agree, but my priors are not moved much by their argument

'Main Results' - Uncovering Some Hidden Heterogeneity

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Judging by my college classmates, `Same-College` accounts for only a small part of unobserved heterogeneity

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- Advice: Work on More Compelling Topics!