(3) Case, Karl E.; Quigley, John M.; Shiller, Robert J. " Comparing Wealth Effects: The Stock Market Versus the Housing Market.", NBER Working Paper 8606, 2001.

The authors examine the link between increases in housing wealth, financial wealth, and consumer spending, under the presumption that the tendency to consume out of stock market wealth is different from the tendency to consume out of housing wealth. The difference is attributed to the possibility that the two classes of assets may have differences in liquidity where houses are considered more lumpy, housing represents both an asset and a consumption item and when its prices increase wealth increases but so does the cost of housing services, housing wealth tends to be held by consumers in all income classes while stock market wealth is more concentrated, consumers may view increases in wealth for some asset classes as more likely to be permanent while others as temporary or uncertain, consumers may not find it easy to accurately measure certain types of wealth, and consumers may attach certain psychological factors to certain assets.

The authors rely on two sets of data: a panel of annual observations on 14 developed countries for the period of 1975-1999, and an analogous panel observations on the American states from 1982-1999, and they impute the aggregate value of owner-occupied housing, the value of financial assets and a measure of aggregate consumption for each of the geographic units overtime using available data sources.

Studying the statistical relationships between per capita consumption, income, stock market wealth, and housing market wealth, they find in all specifications that the estimated effect of housing market wealth is significant and large, while that of financial wealth is smaller and in some specifications insignificantly different from zero. Testing the hypothesis that the housing wealth coefficient is higher than that of financial type of wealth is accepted by a wide margin. When all regressors are expressed as first differences, the coefficient on housing wealth is significant in all specifications, while that of financial wealth is essentially zero. Adding lagged consumption to the first differences to correct for the presence of unit roots, the results support the highly significant effect of housing market wealth upon consumption relative to financial wealth.

The authors conclude that, in developed countries, the evidence of a stock market wealth effect is weak, while the evidence that variations in housing market wealth have important effects upon consumption is strong.