(31) Case, Karl E., Quigley, John M., and Robert Shiller. "Home-buyers, Housing and the Macroeconomy." Reserve Bank of Australia Conference on Asset Prices and Monetary Policy, 2003.

The authors explore the role of households' expectations and attitudes in determining outcomes in the housing market, by presenting results from a survey of US home-buyers in 2002. The results of the survey find that 90% of the respondents to the questionnaires were buying single-family houses, where the vast majority considered the purchase as an investment, though they were less likely to be buying a home strictly for investment purposes. Respondents also believed that housing is indeed a better long term investment than the stock market, however the vast majority said that the performance of the stock market had no effect on the decision to buy a house. The survey also finds home-buyers very optimistic about the future of home prices, even after a long boom. The authors conclude that home buyers expectations about the future are backward looking, and the degree of their short term optimism depends on the perceptions of what is happening now. They conclude that though home buyers seem to be reasonably well informed, backward looking price extrapolation is playing a major role in driving buyers' expectations of future price increases. Furthermore, 85% of the respondents say they have a theory of recent trends based on fundamentals, and fewer than 15% point to the psychology of home buyers. Results also reveal that many of those who sold felt they could have gotten more, and also thought that if they had charged 5-10% more the property would have sold just as quickly, but a majority also thought that charging more would be unfair. The survey also supports the fact that buyers lower their asking prices only as a last resort, as a majority argued that the best strategy on a slow market is to hold up until they get what they want, which provide evidence that such resistance prevents house prices from falling at the onset of a down period.

As the survey results suggest that households may be subject to irrational expectations about future price growth that are excessively affected by recent trends that may contribute to the large swings in house prices that are apparent in the data, the authors address the question of whether these swings in prices have significant effects on aggregate activity. Therefore, they attempt to asses the extent to which movements in house prices have wealth effects on consumption, and whether they are different than those arising from swings in equity prices, using a panel of 14 countries and a panel for US states. Basic ordinary least squares relationships between consumption, income and the two measures of wealth show that the estimated effect of housing market wealth on consumption is significant and large. In the international comparison, the elasticity ranges from 0.11-0.17, while in cross state comparison, it is between 0.05-0.09. The estimated effects of financial wealth is highly significant but its magnitude is about 60% as large as the estimated effect of housing wealth. Testing the hypothesis that the coefficient on housing market wealth is equal to that of stock market against the alternative that they are different, the evidence show that housing market wealth has a more important effect on consumption than does financial wealth. When the effects of first order serial correlation are also estimated, and when all variables are expressed as first differences, or when using an error correction model, consumption changes are highly dependent on housing wealth more than stock market wealth.