Housing Price Bubbles and Macroprudential Policies, an Adaptive Learning Approach

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Abstract

We study the effects of the 2000's housing price bubble on the economy. For this, we introduced adaptive learning expectations formation in a DSGE model with housing and a banking sector. This framework provides flexibility in beliefs to match the non-rational behavior of house prices expectations. This model can capture the evolving effects of a house price bubble on credit supply and the broader economy. The results suggest that the credit supply is indeed affected in episodes of asset bubbles. We additionally find that macroprudential policies may lessen the response of financial intermediaries to the housing shocks, magnified by the learning dynamics.

Keywords: House Prices, Near-rational expectations, Constant-gain learning, Evolving beliefs, Bayesian estimation, Macroprudential policies, credit supply, DSGE models.

JEL Classification: C11, C320, D84, E32, E44, E58, E60, R31.

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