

Financial Crisis and the Co-movements of Housing Sub-markets: implications for alternative theories of price and trading volume ♦

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Abstract

This study of the co-movements of the transaction prices and trading volumes reveal that the mean correlation of prices, and trading volumes alike, among different housing sub-markets increases during the market boom. After a financial crisis, the correlations drop dramatically and stay low. The distribution of the correlations changes from skewed to symmetric. All these coincide with the increase in the total variance of prices, as well as the share of the idiosyncratic component in the total variance after the crisis. These findings are consistent to a family of theories which emphasize on “regime switch” in expectation.

JEL Classification Number: G10, R30

Keywords: financial crisis, hedonic pricing, structural break, evolution of valuation, rolling regression

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