

Essays on International Mortgage Markets

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Regardless of different ways in categorizing various academic fields of economics today, there is little doubt that any serious research effort must be approached with a global perspective, as nowadays the so called “closed economy” only has its virtual existence in the textbooks. Most academic economic analysis in modern days is delivered predominantly in the forms of numbers and statistics. Graduate students and researchers have to face these abstract descriptions and make sense out of them in order to infer the reality whenever they need to conduct research involving countries and economies that are totally strange to them, which from time to time could be very challenging. Nevertheless, a profound understanding of how an economy is shaping and meantime being shaped by the unique historical, cultural and political forces of the particular country is usually critical to the quality and success of the ultimate research design, which can never be more effectively obtained by onsite field work and interaction with the local culture.

I feel so fortunate and blessed of winning the SYLFF Summer Research Abroad award. For me, it's a very precious opportunity to get first-hand exposure to Australia as its housing economy is part of my dissertation research. The SRA award has provided me with the opportunity to obtain the most up-to-date technical training at one of the major institutions in the world that maintain household longitudinal survey data. In fact, my one-month's stay at the city of Melbourne turned out to be one of the most sociable and at the same time academically fulfilled months in my life. I had the chance of communicating face-to-face with experts at the University of Melbourne who have working knowledgeable on the household longitudinal survey methodologies as well as hands-on experience handling the data for different research purposes. I was also lucky enough to meet a few leading housing economists in Australia during my stay, from whom I have received advice regarding my own research and learned about the new trends in housing research in Australia.

My dissertation compares housing and mortgage markets across different countries. My SRA specifically focuses on the comparison between two major English-speaking countries – USA and Australia. The importance of home ownership has been deeply rooted in the traditional Anglo-Saxon culture and beliefs for centuries, as manifested by the consistently higher home ownership rate in the OECD English-speaking countries,

i.e., US, UK, Australia, and Canada, than some of their non-English-speaking OECD counterparts such as Germany and France. Both being modern immigrant countries, USA and Australia share many commonalities that make it possible for one-to-one comparisons.

Because of the close resemblance in language, culture, and institutions derived from the Anglo-Saxon tradition, it is not difficult to find out that a multitude of social and technological revolutions have brought about similar transformations of the housing markets during the latter half of the 20th century. To name a few of such social changes, large inflows of immigrants due to advancement of transportation tools which directly reshuffle the demographics and wealth of the population, the rise of women's social status which directly lead to the shrinking proportion of nuclear families and the fast-growing single-member households due to delay in marriage, climbing divorce rate and declining birth rate, an aging society due to the advancement of healthcare technologies, etc. All of the above factors are shifting the housing demand out and place upward pressure on home prices. In fact, housing has been a hot topic for economics and other social science subjects since the 1990s, when the unprecedented home-price appreciation became a ubiquitous phenomenon in most OECD countries and more recently in major developing countries such as China and India.

An immediate macroeconomic consequence of the rocketing home prices is that the housing sector made a larger contribution to the GDP growth than most other sectors. Of the same importance is the distributional impact of the fluctuating (if not ever-climbing) home prices on the wealth of the overall population. When the increase of home prices outpaces the rate of growth of all other types of income such as regular wage and salary, homeownership becomes out of reach for the many. In countries where homeownership is sought after in popular culture and beliefs, there might well be lost generations who find it somewhat more difficult to attain their "American/Australian dreams." On the other hand, for most existing home-owning households, residential property becomes the most valuable asset. In Australia, for example, more than half of the total households' assets are associated with housing.

The next story is how these homeowners take advantage of their more valuable properties. With an increasingly integrated housing and financial markets through various mortgage innovation at the beginning of the 21st century and the introduction of secondary mortgage markets in several OECD countries, the housing wealth has

become even more fungible and liquid, which makes it much easier and cheaper for households to cash out their appreciated residential properties. For example, homeowners may take on more secured debts to support their consumption of all kinds. On the other hand, any potential fall in home prices would have negative impact on households' balance sheets and the impact may be devastating depending on the degree of leverage exercised by the households.

To sum up, the prosperity of the economies at large as well as every single homeowner have become heavily relied on the housing sector, particularly, the home prices. Until after the 2008 US financial crisis, the risk behind the huge but complicated nexus of the housing, mortgage and capital markets was not really at the frontier of academic research agenda or the popular media. The first step to understand the transmission mechanism from household to the big economy can be achieved through an examination of the household-level data, which is part of what I plan to achieve in my dissertation. The SRA award has given me the chance to explore the real world economics and generate new research ideas through the widening of knowledge base through travelling and intense communication with world experts and professionals. I'd like to send my greatest appreciation to SYLFF and the Tokyo Foundation!