

**Discussion of  
“Housing Prices, Property Taxes, and  
Neighborhood Effects”**

by Ethan Cohen-Cole, Enrique Martinez-Garcia and Jonathan  
Morse

Pedro Silos  
Federal Reserve Bank of Atlanta

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# Purpose of the Paper

- ▶ *Quantitatively* evaluate the effects of demographics and education-financing policies on house price dynamics.

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- ▶ *Quantitatively* evaluate the effects of demographics and education-financing policies on house price dynamics.
  - ▶ Construct and calibrate an OLG economy with population growth shocks and a continuum of agents.
  - ▶ Assess how much demographics and education financing can explain time-series of house prices.
  - ▶ No results yet . . .

# The Setup

- ▶ Preferences

$$E \sum_{j=1}^J \pi_j \beta^{j-1} u(c_j, s_j, l_j)$$

- ▶ Shocks

- ▶ (Idiosyncratic) productivity shocks and demographic shocks.

- ▶ Technology

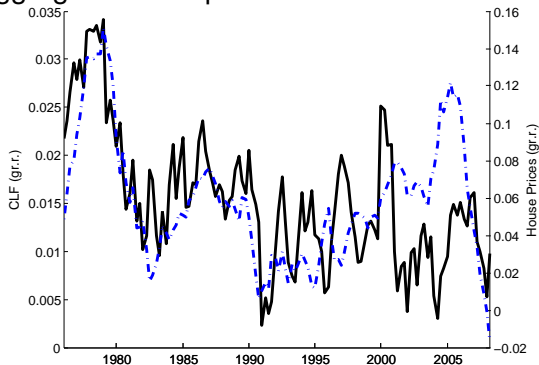
- ▶ Two final goods: housing services (linear technology in housing capital) and general consumption good  $y = aG^\phi l^\theta$
- ▶ Hours  $l$  function of time spent working and studying.

## ... The Setup

- ▶ Trading arrangements
  - ▶ Agents trade in houses at price  $p$  and risk free IOUs at price  $q$ .
  - ▶ Borrowing only in the form of a mortgage.
- ▶ Education-financing.
  - ▶ Public expenditures on education financed from fixed fraction ( $\tau$ ) on the value of the home.

# Demographics and House Prices

- ▶ Population size changes clearly related to changes aggregate house prices.

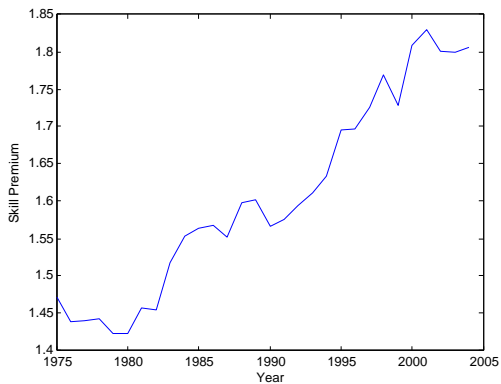


- ▶ But, is the interaction between demographics and school-financing in the model important?

## How I would go about it. . .

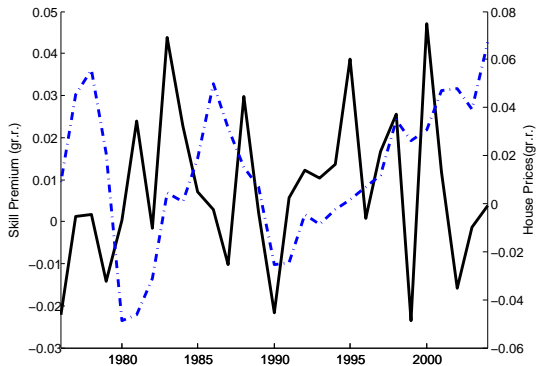
- ▶ Focus on the school financing and house prices.
- ▶ Changes in the reward to skill (skill premium) important in US time series.
  - ▶ Relationship to aggregate house price changes? Not so large. . .
  - ▶ Relationship to aggregate changes in house price dispersion (or other moments)? I don't know. . .
- ▶ Model of location choice: buying a house today will determine your offspring earnings as in your current model. Choose location based net present value of earnings differentials. Changes in the skill premium the only shock (aggregate).
- ▶ What does it say about house price dispersion and skill premium? What's in the data?

# US Skill Premium (1975-2004)





# US Skill Premium (1975-2004)



# Conclusions

- ▶ Ambitious paper that touches on important issues.
- ▶ At this point, interaction between demographics and school financing in the model is not all that clear.
- ▶ Motivate empirically the relationship between reward-to-skill (skill premium) and house price dynamics.
- ▶ Focus on the latter instead of demographics.