

Accepted Manuscript

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Evidence from China

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PII: S1566-0141(17)30270-4

DOI: <https://doi.org/10.1016/j.ememar.2017.12.005>

Reference: EMEMAR 542

To appear in:

Received date: 12 July 2017

Accepted date: 29 December 2017

Please cite this article as: Zhengyi Zhou , Housing market sentiment and intervention effectiveness: Evidence from China. The address for the corresponding author was captured as affiliation for all authors. Please check if appropriate. Ememar(2017), <https://doi.org/10.1016/j.ememar.2017.12.005>

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This version: July, 2017

Abstract This paper studies the interaction between housing market sentiment and government interventions. With a unique micro-level data from China, we construct a housing market sentiment index by applying the techniques in the finance literature. This index is significantly correlated with the confidence indexes from official sources. We find that housing market returns increase with contemporaneous sentiment, and high sentiment is followed by low returns. Tightening policies cannot reduce optimism, and high sentiment negatively impacts the effectiveness of tightening policies. This negative impact is especially significant in the zones where housing prices are sensitive to increasing sentiment.

Keywords housing market; sentiment; government intervention; China; Shanghai
JEL P25 L52 G14

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