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Home-Purchase Restriction, Property Tax and Housing Price in China: A Counterfactual Analysis

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Abstract

In this paper, we respectively evaluate the effects of home-purchase restrictions and the trial property taxes on housing prices in China using a counterfactual analysis. We modify the method of Hsiao, Ching and Wan (2012) by using the leave-n_v-out cross-validation criterion for the optimal choice of the control cities. Some Monte Carlo simulations illustrate the better performance of our method. We then construct the counterfactual growth rates of housing prices in Beijing, Shanghai and Chongqing using the selected control cities. We find that: (i) purchase restrictions reduced the annual growth rate of housing prices in Beijing by 7.69 percent; (ii) the trial property tax of Chongqing reduced the annual growth rate of housing prices by 2.52 percent; (iii) the trial property tax of Shanghai had no significant effect on housing prices.

Keywords and Phrases: Home-purchase restriction; Property tax; Counterfactual; Cross validation; Housing price.

JEL Classifications: H31, C23, R31.

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