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Abstract

Changes in macroeconomic conditions can significantly determine directions and magnitudes of cross-country housing price movements. We demonstrate that such effects are consistently over-estimated when 'spatial frictions' are merely *assumed*, but are not explicitly *modeled* in the empirical framework. The extent of over-estimation bias has significant policy implications.

Key Words: Macroeconomic adjustments; Spatial frictions; International housing market; Estimation bias; Spatial panel data.

JEL Classifications: C32; E60; E62; R03; R31

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