

## Session 6 Handout

### Bursting the Bubble: Analyzing the Real Estate Market

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#### General Concepts Covered

- Background on the current housing crisis in the United States
- Easy mistakes that can be made when modeling a housing downturn (e.g. adjusting housing price alone)
- The most accurate methods for dealing with both the real and credit market effects of a housing downturn is to change the level of investment in residential and nonresidential structures

#### Key Inputs

##### National Control

- Macroeconomic Values
  - GDP
  - Residential Private Investment
  - Nonresidential Private Investment

##### Regional Control or Simulation

- Output Block
  - Investment Spending > Residential Investment Spending
  - Investment Spending > Nonresidential Investment Spending

#### Key Results

- Employment
- GRP
- Personal Income
- Output

#### Background Information/Tips

- ✓ Housing prices cannot just be changed. The model does not factor in problems with low liquidity in credit markets when evaluating the results of an exogenous housing price change. Instead, the model will assume people have the means to buy up the now cheap housing and register an economic *stimulus* as opposed to a *downturn*. As a result, it is better to use investment spending (a data input which inherently has credit conditions built into it) to bridge the gap between the real economy and monetary/financial economy.
- ✓ When changing macroeconomic values in a national control all rows must be filled in for a given column (i.e. for any year you put data in for one GDP concept you must put some value in for all concepts in that year). If you wish to use REMI defaults they can be found in the standard national control under "Total GRP (Bil 2000\$)". Be careful - they are in slightly different order.
- ✓ Optimal capital stock (which has ostensibly declined) cannot be changed directly...the recommended use of the investment spending variable will make an appropriate change.