Comments
“On the Importance of Borrowing Constraints for House Price Dynamics”

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Overall Evaluation

- Excellent paper
- Interesting question
- Carefully executed
- Carefully presented

Basic Results

- Theoretically, you could have people buying more housing as the prices increase if “borrowing constrained”
  - Assets are greater
  - Don’t have to sacrifice as much consumption
  - Called “liquidity effect” in paper
- Liquidity effect not sufficiently important to drive housing prices
- Able to explain half of rise and fall of prices in Finland

Overall Analysis

- Perfect foresight with one unexpected change
- No aggregate risk

Interpretation of Down Payment Constraint

- People own a house and the price goes down
- In their setup, the household moves to a smaller house to satisfy the “down payment constraint”
  - The down payment constraint is a financing constraint
  - A world of mortgages with terms of four years

Developments that Seem to Be Missing

- No one seems to become “upside down”
  - Upside down: owe more than house is worth
  - Constrained households would be unable to sell the house and downsize
- No one seems to become unable to honor their obligations

What Does the Model Tell Us about People on Front Page of *Wall Street Journal*?

- People who put nothing down
- People who borrowed ten times their annual income
- People whose house payment is more than half their take-home earnings
- People who borrowed more to increase consumption as the price of the house increased