

11.346 Housing Markets, H1 (2/7-3/21)
Wednesdays, 12:00-2:00pm
W31-301
<http://stellar.mit.edu/S/course/11/sp07/11.346/>

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Syllabus and Readings

The analysis of domestic housing markets is complicated by the fact that real estate assets are heterogeneous, durable and fixed in location, the fact that housing involves joint consumption and investment decisions with important social implications, and the fact that “private” housing markets are heavily influenced by special institutions including government policy and regulation. The goal of this course is to explore some fundamentals of U.S. housing markets, including issues of affordability and related policy, with a focus on helping students develop a research topic in this area. Hedonic modeling will be introduced. Students will be required to write a term paper on a housing topic of their choice.

Grading:

Class Participation & Assignments: 30%
Term Paper: 70%

Class attendance, preparation and participation are critical. There will be one required statistical assignment and two (short) interim assignments leading to the final paper. Attendance and participation in at least 5 of 7 lectures is required in order to receive a passing grade for the course.

Nature and Structure of “Term” Paper:

The main assignment of the course is a critical literature review on a housing markets topic of the student’s choice, broadly defined. The assignment can be approached in one of two ways. First, given a particular research question, the student may identify a relevant scholarly literature to provide background for the question at hand. Second, given a literature of interest, the student must identify a specific research question. The student is required to survey no less than 10 articles, books, etc. The use of practitioner writings and publications is encouraged but may not be the sole source of the literature review.

If the approaching the assignment as a research question looking for a literature, then conclusions must be drawn about where the research question fits into a literature (recognizing that several literatures may be relevant), and what the existing literature suggests about how your inquiry might proceed. For example, the literature may point to an appropriate empirical methodology, problems in prior studies or particular types of data that will be needed. Most

likely, the research question itself will be refined as a result of this process. If approaching the paper from a literature looking for a question, the student must develop a thoughtful research question that responds to the existing literature, including speculation as to the appropriate methodology, problems or data needed to proceed. In either case, a precise research question must be identified and specifically related to previous work.

Interim Products: 1 page description of topic and approach; 2 page refinement with citations

Final Product: 10 page literature review, double-spaced.

Deadlines and Dates

2/14: Turn in a one page explanation of research topic and approach.

2/21: Hand in summary statistics assignment (due in class).

3/7: Hand in a (up to 2 page) write up refining the topic and approach with a preliminary reference list.

3/22: An extra session will be held on *Sub-prime Lending* and its regulation on March 22 from 11 am – 12:30pm. Guest speaker: Patricia McCoy. Lunch provided.

3/26: Final paper due.

With the exception of the summary statistics assignment, the interim write ups and the final report should be uploaded to the Stellar website by 5pm on the due date. A hard copy of the summary statistics assignment should be brought to class on 2/21 for use during class.

Topics and Readings

I. Introduction to Housing Markets (2/7)

Green, Richard K, and Stephen Malpezzi. 2003. *A Primer on U.S. Housing Markets and Housing Policy*. Washington, D.C.: The Urban Institute Press.

DiPasquale, Denise and William Wheaton. 1995. *Urban Economics and Real Estate Markets*. Prentice Hall.

II. Housing Cycles and Bubbles (guest lecture) (2/14)

Case, Karl E. and Robert J. Shiller. 2003. Is There a Bubble in the Housing Market? *Brookings Papers on Economic Activity* 2: 1-44.

Wheaton, William and Gleb Nechayev. 2007. Past Housing “Cycles” and the Current Housing “Correction”: What’s Different This Time? Working paper.

III. Hedonic Modeling (lecture/lab) (2/21)

Malpezzi, Stephen. 2002. Hedonic Pricing Models: A Selective and Applied Review. Working paper.

Black, Sandra E. 1999. Do Better Schools Matter? Parental Valuation of Elementary School Education. *Quarterly Journal of Economics* 114(2): 577-599-

IV. Neighborhoods (guest lecture) (2/28)

Galster, George C., Jackie M. Cutsinger and Ron Malega. 2006. The Social Costs of Concentrated Poverty: Externalities to Neighboring Households and Property Owners and the Dynamics of Decline. Working paper.

V. Land Use Regulation and Housing Markets (3/7)

Fischel, William. 2000. Zoning and Land Use Regulation, in Boudewijn, Bouckaert and Gerrit De Geest, (eds.), *Encyclopedia of Law and Economics, Volume II. Civil Law and Economics*. Cheltenham: Edward Elgar.

Fisher, Lynn, Henry Pollokowski, and Jeff Zabel. 2007. Amenity-Based Housing Affordability Indexes. Working Paper.

Gyourko, Joseph, Albert Saiz, and Anita Summers. 2007. A New Measure of the Local Regulatory Environment for Housing Markets: The Wharton Residential Land Use Regulatory Index. Working paper #558.

VI. Homebuilding Industry and Technology (guest lecture) (3/14)

Gertner, Jon. 2005. Chasing Ground. *The New York Times* October 16, 2005.

Larsen, K., S. Intille, T.J. McLeish, J. Beaudin, and R.E. Williams. 2004. Open source building – reinventing places of living. *BT Technology Journal* 22 (4), 187-200.

VII. Housing Finance: A History (3/21)

- Green, Richard and Susan Wachter. 2005. The American Mortgage in Historical and International Context. *The Journal of Economic Perspectives* 19(4): 93-114.
- Van Order, Robert. 2001. The structure and evolution of American secondary mortgage markets, with some implications for developing markets. *Housing Finance International* 16(1): 16-31.
- Fisher, Lynn M. 2005. Early Innovations in the Common Law Mortgage. Adapted and modified from "Renegotiation in the Common Law Mortgage and the Impact of Equitable Redemption," *Journal of Real Estate Finance and Economics* 32: 1 (2006).