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The Housing Rental Rate Elasticity of Aggregate Consumption: A Panel Study for **OECD** Countries

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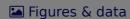
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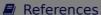
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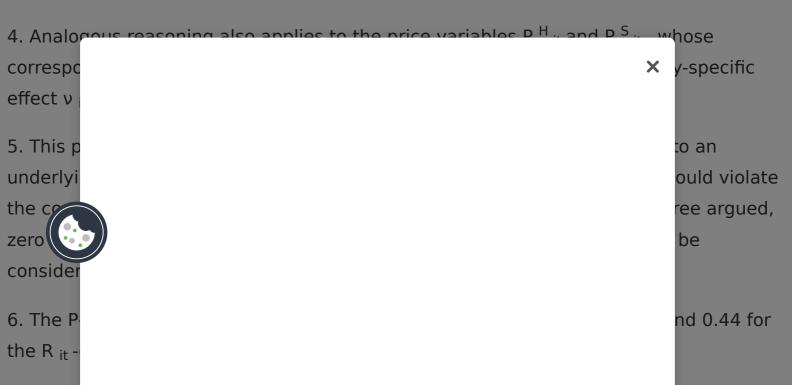
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Acknowledgements

This paper originated during a research leave at the department of statistics at 'Parthenope' University in Naples. I want to thank the colleagues there for their hospitality and gratefully acknowledge financial support for this research by Arbeiterkammer Wien.

Notes

- 1. An extra benefit from the parsimonious specification is the possibility to estimate consumption functions also for each country separately. For the employed panel stationarity tests for example this is a prerequisite, as they are based on country specific ADF-tests.
- 2. Like the role of interest rates (which did not appear relevant in preliminary specification testing), the degree of financial liberalization or structural breaks.
- 3. The underlying non-log form (indicated by underlining variables) of the relationship, including such country specific rescaling factors b $_i$ for comparability of rent indices across countries, would be $\underline{C}_{it} = ...$ (b $_i \underline{R}_{it}$) $^{\alpha \, 5 \, Sit}$... Taking logs thereof makes the renter share a country specific variable as in 1.

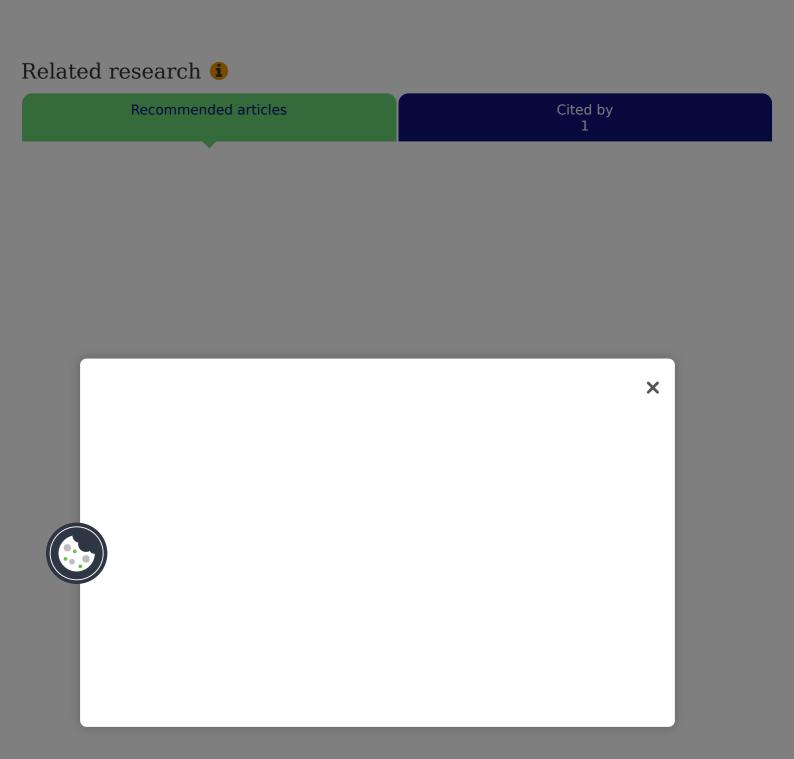


- 7. See, for example <u>Pedroni (1999)</u> on explicit estimation of time effects versus demeaning.
- 8. Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Spain, Sweden, UK and USA. For lack of relevant data, other countries like Switzerland or Portugal had to be excluded.
- 9. The exceptions are Germany, France, UK and the USA, for which longer series are available.
- 10. For a detailed, country by country description of the ILO rent indices see laborsta.ilo.org
- 11. These prices are the inflation adjusted residential property prices from BIS calculations based on national data.
- 12. The seven mentioned, plus 18 country specific renter share vectors plus 32 dummy vectors to capture time effects (two years of observations are lost due to lagged variables, one year is skipped to avoid collinearity).
- 13. H $_0$: 'Chosen instruments are uncorrelated with the error term (exogenous) and, if they are excluded as regressors, they are correlated with the presumed endogenous regressors (non-redundant)'. Under H $_0$ the minimum value of the GMM criterion function J is χ^2 distributed with df's equal to the number of over identifying restrictions. This test is heteroskedasticity robust.



18. Additional testing for cointegration was carried out based on the bounds approach of <u>Pesaran et al. (2001)</u>. Given the evidence from the unit-root tests, this approach would be more appropriate particularly for specifications A and C, because it is valid also for mixtures of I(0) and I(1) variables. Due to data limitations, this type of testing could only be carried out for a maximum of three lags and specifications B and C, but the general picture emerging supports the findings above: Cointegration evidence for specification B is better than for specification C.

19. Additional estimation for specification B (without the wealth variables), for which cointegration evidence was best, lead to significantly negative rental rates elasticities in the -0.35 range (depending on the subsample used).



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