



EUROPEAN CENTRAL BANK

# Discussion of “The housing price boom of the late ’90s: did inflation targeting matter?”

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# Summary of the paper

- **Has inflation targeting increased the volatility of house prices?**
- **Treatment model**
- **Need to control for non-random treatment → propensity scores**
- **Data on 17 industrial countries between 1980 and 2006**
- **Main result: IT strategy is matched with higher house price inflation, and higher house price inflation variability in the 1990s and 2000s, but not earlier**

# Overall evaluation

- **Nice, compact paper**
- **Clearly explained**
- **Relevant question**
- **Good that authors take endogeneity of treatment seriously**
- **However, some issues need to be clarified before their result is taken for granted**
- **(i) Econometric issues, (ii) issues of economic and policy significance**

# Econometric issues

- **If IT is the treatment, then what needs to be controlled for is the initial conditions at the time of the adoption of IT, not developments thereafter**
- **“Pre-trends”**
- **(If I understand correctly what the authors do) authors are controlling for the propensity to have IT over the whole sample, i.e. also after the adoption of IT**
- **This may bias the results, since variables other than house price inflation may be affected by IT adoption**
- **At the minimum, consider results with and without controls**
- **Outliers**

# Econometric issues

- **Not clear why authors have not chosen standard ‘diff in diff’ approach**
- **Treatment = IT**
- **Regress change in HP growth, volatility between IT and non-IT and vs. non-IT (control group) + control variables**
- **Another alternative: panel data model on house price growth with fixed effects, are the fixed effects correlated to IT?**
- **Still problems with degrees of freedom, but not sure chosen method is necessarily better**
- **At least, to be clearly explained**

# Economic / policy relevance issues

- **Analysis ultimately based on few observations: 9 vs 8 countries**
- **Actually, cross sectional dependence likely → independent observations are even less than that**
- **Unavoidable, but still a caveat**
- **Not clear whether having some 2% house price growth per year is really a big problem**
- **Ideally one would like to look at mis-alignments instead**
- **Not clear what the economic channel is, i.e. why is exactly IT bad for house price stability?**