

A REDUCED FORM MODEL USED TO ESTIMATE
HOUSING SUPPLY IN CHINA^{*}

GAO PING^{**}

ABSTRACT Since 1998, China has experienced extremely rapid economic growth and urbanization, putting considerable pressure on urban housing markets. As a result, housing prices rose sharply in the past decades years. While there are large bodies of literatures focus on the factors in affecting housing price fluctuating, there is an obvious lack of empirical estimates of supply elasticities. In this article, we attempt to test the hypothesis of perfect housing supply and present housing supply elasticity in China. A reduced model, combing demand and supply of housing into a single one equation, is employed in this article. Empirical tests suggest prefect supply elastic can not be rejected. Furthermore, using the national time series data from the year 1992 to the year 2009, this article presents its implied price elasticities: 0.05 and 0.10 for flow model; 0.27 and 0.575 for stock adjustment model, which is lower comparing to the elasticities of other developed countries. The results of this article suggest that housing supply in China is less than perfectly elastic; in front of a shock from demand side housing suppliers can not response immediately.

KEYWORDS: Housing supply, reduced form model, stock adjustment

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^{**} The author is a PHD student, major in Economics, study at Ritsumeikan University, JAPAN. The present work is focus on the housing market of China.