Abstract

Housing bubbles have been identified in major cities in China, based on the monthly ratio of price to rent and the bubble test. We find that the housing price Granger causes the producer price index (PPI) and that the PPI Granger causes the estimated Marginal q of 37 industrial sectors over the period 2001–2016. Panel estimation results indicate that the Marginal q does not have a significant impact on investment, whereas Marginal q instrumented by PPI has a significant positive effect on investment. This implies that industrial investment is affected indirectly by the housing bubble, resulting in overinvestments caused by Marginal q from profits in 13 industrial sectors, including metal and coal, during the housing bubble.

JEL: E22; E32

Keywords: China, Housing bubble, Industrial sector, Marginal q, Overinvestment

Industrial Investments and Housing Prices in China¹

Qiqi Qiu and Junmin Wan²

Graduate School of Economics, Fukuoka University

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² Correspondence: Nanakuma 8-19-1, Jonan Ward, Fukuoka City, Fukuoka 8140180, Japan; (e-mail) Qiu: ed170006@cis.fukuoka-

u.ac.jp; Wan: wan@fukuoka-u.ac.jp; (tel) +81-92-871-6631(ext.4208); (fax) +81-92-864-2904.