

Impact of Real Asset Price Bubble on Household Resource Allocation and Utility over a Lifecycle *

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Abstract

Japan experienced an asset price bubble at the end of the 1980s and the early 1990s. This dramatic change in real asset prices may have a great impact on housing decisions, asset accumulation, and the lifetime utility of households in Japan, because most Japanese buy a new house only once in their lives. This study aims to assess the lifetime impact of real asset price bubbles on Japanese households. We construct a theoretical model explaining dynamic housing decisions of households under collateral and borrowing constraints. Then, we estimate a model by using a unique dataset on household consumption and assets, precisely and subjectively estimating their real asset holdings. By using the estimated model, we do a counterfactual simulation to quantify the effect of real asset price bubbles; the simulation indicates that the bubble caused an 11% loss in lifetime utility.

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