

Dissertation presented at Uppsala University to be publicly examined in Hörsal 2, Ekonomikum, Kyrkogårdsgatan 10, Uppsala, Saturday, December 17, 2005 at 10:15 for the degree of Doctor of Philosophy. The examination will be conducted in English.

Abstract

Chen, J. 2005. Empirical Essays on Housing Allowance, Housing Wealth, and Aggregate Consumption. *Economic studies* 91. 100 pp. Uppsala. ISBN 91-87268-98-1.

This dissertation consists of four self-contained essays.

Essay I (with Cecilia Enström Öst) investigates whether housing allowance affects recipients' tenure choice in Sweden. A two-stage conditional maximum likelihood probit (2SCMLP) model is applied in a panel data setting to simultaneously control for individual heterogeneity, state dependence and endogeneity. The empirical study is based on administrative data of housing allowance recipients between the years 1994 and 2002. Our results indicate that the housing allowance positively affects recipients' homeownership propensity in Sweden.

Essay II investigates whether the Swedish housing allowance system creates dependence on welfare in recipients. Using longitudinal data from Swedish micro database-LINDA, this paper found that there is no evidence of negative duration dependence among the Swedish housing allowance spells. This finding is consistent across different model specifications and various controls of the heterogeneity issue.

Essay III analyzes the impacts of the 1997 reform of Swedish housing allowance system on affected recipients' exit hazards using the DD (difference-in-difference) estimation strategy. This paper found strong evidence that the 1997 reform positively shifted up the conditional exiting probability of the couple with children recipient group, and the estimated magnitude of impact is sizable.

Essay IV extends the VECM (Vector Error Correction Cointegration Model) and PT (permanent-transitory) variance decomposition framework proposed by Lettau & Ludvigson (2004) to a situation in which total wealth is disaggregated into housing wealth and financial wealth. The empirical studies are based on the Swedish aggregate quarterly data spanning from 1980q1 to 2004q4. We found strong statistical evidence that the movements of total consumption expenditures, disposable income, housing wealth and financial wealth are tied together. It is also shown that the movements of housing wealth in Sweden contain a large proportion of transitory component.

Keywords: housing allowance, housing policy, tenure choice, homeownership, endogeneity, 2SCMLP, welfare trap effect, difference-in-difference, interaction effect, housing wealth, VECM, permanent-transitory, variance decomposition, wealth effect

Jie Chen, Department of Economics, Box 513, Uppsala University, SE-75120 Uppsala, Sweden

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