

A Linear Autoregressive and Non-Linear Regime Switching Approach in Identifying the Structural Breaks Caused by Anti-Speculation Measures: The Case of Hong Kong

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Abstract : This paper examines the impact of an anti-speculation tax policy on the trading activities and home price movements in the housing market in Hong Kong. The study focuses on the secondary residential property market where transactions dominate. The policy intervention substantially raised the transaction cost to speculators as well as genuine homeowners who dispose their homes within a certain period. Through the demonstration of structural breaks, our empirical results show that the rise in transaction cost effectively reduced speculative trading activities. However, it accelerated price increase in the small-sized segment by vastly demotivating existing homeowners from trading up to better homes, causing congestion in the lower-end market where the demand from first-time buyers is still strong. Apart from that, by employing regime switching approach, we further show that the unintended consequences are likely to be persistent due to this policy together with other strengthened cooling measures.

Keywords : transaction costs, housing market, structural breaks, regime switching

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