Housing Investment Modelling for Sweden using the theoretical Tobins q Model and Error Correction Methodology applied on Swedish Quarterly Data Period 1986Q1–2008Q4.

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Abstract

Houses are the largest durable goods as ordinary household invests into and therefore the commitment for housing investment has to be planned more judiciously. This paper specifies a model for housing investment that is applied and estimated for Swedish quarterly data for the period 1986Q – 2008Q4. The basic dynamic model combines a few known elements from relevant housing investment theories like Tobin q model, neoclassical investment theory. Our purpose is to present an empirical investment model that is capable firstly to explain recent changes in housing investment. The results do indicate that the recent down turn in housing investment is very well explained by this simple model. The model has potential to be used as a forecasting model for Sweden and can also be utilized as blocks in wider macro-economic models for Sweden. Results indicate that the long-run q is 1.2. Short run semi-elasticity of interest rates is 1%.

I. Introduction

HOUSING INVESTMENT CAN be seen to be determined by various separate economic fundamentals and determinants. This is shown also in the various theories of housing investment that cannot be easily united into one single theory. This paper aims to construct a empirical model for housing investment. The deregulation of the housing market particularly lending has had important effect on the housing market in general.

One of the most important ingredients of housing investment model relies on the basic incentive for suppliers to make investment decision and start housing production is the applied Tobin q theory of investment, originally proposed by James Tobin (1969) for corporate investment. The application and adaptation of this theory for housing investment was done

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