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What Have They Been Thinking? Home Buyer Behavior in Hot and Cold Markets

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Questionnaire surveys undertaken in 1988 and annually from 2003 through 2014 of recent homebuyers in each of four U.S. metropolitan areas shed light on their expectations and reasons for buying during the recent housing boom and subsequent collapse. They also provide insight into the reasons for the housing crisis that initiated the current financial malaise. We find that homebuyers were generally well informed, and that their short-run expectations if anything underreacted to the year-to-year change in actual home prices. More of the root causes of the housing bubble can be seen in their long-term (10-year) home price expectations, which reached abnormally high levels relative to mortgage rates at the peak of the boom and have declined sharply since. The downward turning point, around 2005, of the long boom that preceded the crisis was associated with changing public understanding of speculative bubbles.



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