

Abstract

“Asset Price Booms and Growth Slowdown”

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We examine the macroeconomic impact of asset price booms and credit expansion over short and long horizons, using an OLG model featuring commercial and residential properties. Reductions in interest rates, lower stamp duty, and increased housing demand produce a temporary macroeconomic boom, but ultimately lead to slower productivity and long-term growth, endogenously generating a kinked-curve dynamics in GDP, consumption, and asset prices. The welfare consequences are uneven, with later generations and hand-to-mouth households suffering disproportionately. Higher housing demand may give rise to a complete asymmetry between macroscopic and microscopic perspectives, whereby the macroeconomy is booming whilst the welfare of individuals at the micro level is declining. Regulations that reduce the pledgeability of assets can weaken the boom, but exacerbate long-term growth slowdown and intergenerational inequality. The calibrated model can quantitatively account for the salient patterns of slowing growth alongside the run-up in house prices and credit extension observed in many countries over the past several decades.