The Asymmetric Effects of Monetary Policy on Housing Across the Level of Development*

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Abstract

In recent years, there has been increased attention devoted to studying housing markets across countries. In particular, the impact of monetary policy and inflation on housing performance is of great interest. However, there is limited data on housing market activity across the developing world which renders it difficult to understand the effects of policy empirically. Due to these limitations, we study the effects of monetary policy on housing market activity using a variation of the neoclassical growth model which is often used to study the process of economic development. Consistent with the limited observations on the relationship between residential investment and GDP across countries, there are significant non-linearities between housing market activity and aggregate income in our framework.