Housing and Unemployment: The Search for the “American Dream”

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Abstract

This paper constructs a model of search and bargaining across two different markets: the labor market and the housing market. Interestingly, the model highlights that housing prices and frictions in the housing market have a profound impact on labor market activity through the desire of workers to eventually purchase a home, the “American Dream.” In particular, higher housing prices adversely affect workers’ incentives in the labor market as employment can eventually lead to access to housing through the ability to purchase a home. Similarly, labor market frictions can impact housing market activity. Notably, tighter housing markets are associated with higher unemployment rates and less job creation. Consequently, our work suggests that policymakers should be very careful in implementing policies targeted towards housing—housing markets are likely to generate significant external effects to other sectors of the economy, especially the labor market.

Keywords: Housing, Unemployment, Search Frictions

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