Abstract

Using Bayesian methods, we estimate a nonlinear general equilibrium model where occasionally binding collateral constraints on housing wealth drive an asymmetry in the link between housing prices and economic activity. The estimated model shows that, as collateral constraints became slack during the housing boom of 2001-2006, expanding housing wealth made a small contribution to consumption growth. By contrast, the housing collapse that followed tightened the constraints and sharply exacerbated the recession of 2007-2009. The empirical relevance of this asymmetry is corroborated by evidence from state- and MSA-level data.