Testing for Bubbles in the Indian Housing Market: An ARDL Bounds Testing Approach

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Abstract

This paper investigates whether recently high housing prices in Indian housing market are explained by fundamental factors such as GDP growth, easy credit availability, interest rate and stock market wealth. Using an ARDL bounds test approach for a period of 1997:q2-2011:q1, we estimate a long-run equilibrium model that explain the real economic determinants of house prices and a short-run error correction model to represent house price changes in the short run. Consistent with economic theory, we find that in the long run house prices are related significantly and positively to real income, credit availability and stock prices. They are also related significantly and negatively to the interest rate. The existence of long-run equilibrium relationship between the house prices and their fundamentals implies that a house price bubble if there is any, is not persistent. Instead, there is mean reverting behavior if deviations from co-integrating relationship occur.

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