

“Social Networks and Housing Markets” by Bailey, Cao, Kuchler, and Stroebe

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Belle of the [NBER SI] Ball

- Behavioral Macro
- Impulse & Propagation
- Digitization
- Household Finance
- Real Estate
- Corporate Finance...

So what's all the fuss about?

1. Crisis post-mortem consistent w/ bubblicious beliefs (e.g., Liu 2017 and Cheng, Raina, Xiong 2014)
2. Lots of theory: extrapolative expect., differing priors, sentiments, rational inattention, etc.
3. But unique to measure and have variation in
(*sources_i, beliefs_i, outcomes_i*)

Birds & bees: where do beliefs come from?

- Key part of decision making!
- Rational expectations: agents form unbiased beliefs based on all available info
- Malmendier & Nagel et al. (2011, 2015, 2017a, 2017b)
- Vissing-Jorgensen (2003), Cavallo et al. (2017)
- This paper: impt source = network's experience

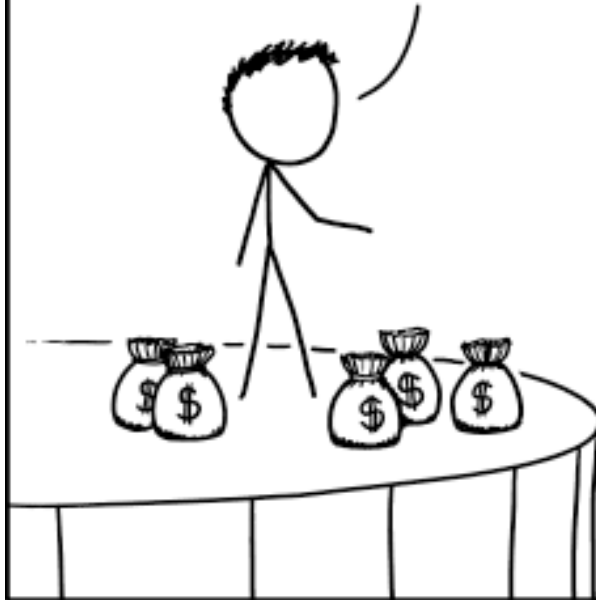
Facebook as a Proxy

- Facebook? Seriously? Yes, seriously.
- Not a unique effect of *online* social networks
 - but unique chance to proxy for full social network
- Many updates to priors collected from networks
 - e.g., cornered at a 2005 family reunion
 - e.g., the legendary Guymons

NEVER STOP BUYING LOTTERY TICKETS,
NO MATTER WHAT ANYONE TELLS YOU.

I FAILED AGAIN AND AGAIN, BUT I NEVER
GAVE UP. I TOOK EXTRA JOBS AND
POURED THE MONEY INTO TICKETS.

AND HERE I AM, PROOF THAT IF YOU
PUT IN THE TIME, IT PAYS OFF!



“Every inspirational
speech by someone
successful should
have to start with a
disclaimer about
survivorship bias
[selecting on y].”
-xkcd

Paper Summary

1. Operationalize network experience effects
2. Measure personal beliefs with survey
 - n.b. validates causal channel, doesn't rule out others
3. Measure outcomes with housing data
 - Shows money where ~~mouth~~ is beliefs are
4. Smoking gun: People who report discussing house prices with network are more affected by network experiences

On Magnitudes

- 5 p.p increase in network experiences => 17% (3 p.p.) increase in homebuying
- Is 5 p.p. big or small?
- 5 p.p. spread = 2.8σ = difference between 5 and 95th percentile of network experience var.
- Still big! (1σ => 6%) Useful to present elasticity?

Ruling out obvious endogeneity

- Isn't my network endogenous to my unobservable housing demand? Of course.
- Paper relies not on exogeneity of network but exogeneity of network's home-price experiences
- From 1993-2012, no persistent variation across individuals in network housing α

I'm more worried about β

- Problem is less network's excess returns than it is comovement with demand shocks
 - (especially given effects for own \rightarrow rent)
- Average network experience isn't persistent across people, but might cyclical be? If so, may be correlated with demand shocks
 - Tuzel & Zhang (2017) – effect of high local β s
 - Sinai (2012), Palmer (2015) – strength of 1980s local housing cycle predicts 2000s cycle

Location, location, location?

- Rule out learning about national component because geographically diverse networks do not have larger effects on homebuying
- But why assume suddenly that people will rationally value disperse networks more?
- If neglecting locality of housing markets, could *still* be *trying* to learn about national demand, just doing it in a convenient (but ineffective) way

Intensive Margin Results

- Buyers with higher network experiences buy larger homes and homes with larger price residuals
- But conditioning on buying conditions on unobservables, e.g., taste for housing
- Rich controls help (R^2 high for $\log P$ but not sqft), but tricky argument to make (e.g., censored regression lit).
- Need more to show that conditional on network experiences, people who buy aren't different from people that don't.

Consumption Externalities?

- Authors rule out keeping-up-with-Joneses
- Effects not driven by friends' insensitively posting pics of their gawdy McMansions but from the *price* experiences *of their friends' geographies*.
- Robust to controlling for local trading volumes, or renters' experiences.
 - But renters HP experiences correlated with owners purchasing
- Could control for network buying activity via Axiom? Prob. correlated with discussing HP with network

Minor Points

- IV probably has same proxy-based meas error as full network's ME. Means still lower bound of full effect of (online and off) social network experience?
- Conditional on controls, is IV correlated with OVB (within-LA experience)? Could test this.
- How define non-clustered occupations?
 - Worry that non-clustered \neq mobile.
- OLS comparisons and first stage doc useful for App'x

Conclusion

- Large component of beliefs sourced from less-than-full-information sources
- Consistent with recent theoretical literature
- Social network key driver of beliefs
- Beliefs have real effects on individual outcomes!
- Aggregates up, too (see companion paper)