

ECO 209

Macroeconomic Theory and Policy

Case Study No. 4

Case Study No. 4 on ***Toronto's Housing Bubble*** will be discussed in class on Tuesday, July 4. The required short-readings have been posted on the course website. Read these articles and come to class ready for the discussion. The following questions will help you in your preparation:

- 1) Why is Canada seen as a likely candidate for a housing market correction? What would be the economic impact if such a correction were to occur? Why does Moody's say that such correction will likely not impact Canada's debt rating?
- 2) Is the GTA — and Toronto, most particularly — currently experiencing a housing bubble? What do the different levels of government seem to believe? What are the main concerns of the different levels of government?
- 3) How does the current real estate market in Canada resemble those of the U.S., Spain and Ireland of the first half of the 2000s? And in which way does it differ from them?
- 4) According to Josh Gordon of Simon Fraser University, what are the main drivers of the increase in house prices in Toronto and Vancouver? Is it mainly a demand- or a supply-issue?
- 5) Why in a housing bubble “not even a substantial amount of new supply can meet speculative demand”? Can foreign buyers be part of the problem?
- 6) What is — according to Gordon and others — the solution to the current housing bubble in the GTA? What about increasing the capital-gains tax?
- 7) What about concerns regarding the affordability issue of house-price increases? What should the government do? Subsidies to first-time buyers? Rent controls?