

Abstract

The aim of this thesis is to examine the impact of the interest rate change on the housing market. We are using the quarterly data for GDP, consumption, investment, housing prices, short-term interest rate and unemployment to estimate two VAR models. The extended model contains all the variables just mentioned and for the estimation of the base model consumption and the unemployment rate is excluded. Our sample consists of Belgium, France, the Netherlands, Portugal, Sweden and the United Kingdom. We present the impulse responses of the housing price and GDP to a shock in the interest rate and variance decompositions of the housing price index. The results show that the changes in the interest rate can explain the evolution of the housing price index. However, the impact differs from country to country.

Keywords: housing price index, short-term interest rate, overvaluation, VAR model, impulse response, variance decomposition.