

ABSTRACT

Covering reciprocal and mutually reinforcing relations between business, housing and credit cycles, the thesis assesses the Spanish housing market in its wider circumstances. With use of several conceptual notes on demand for housing, dynamic path of the house prices in Spain may be explained based on the difference in how these structural components react on changes in financial and macroeconomic environment. As a result of controlling for match of demand and supply in both timely and spatial manner empirically, expectations were included to explain the subsequent volume of housing traded on the market and simple microeconomic decision making model taking into account taxes was derived to assess the role favourable incentives might have played on fuelling the house price cycle in Spain. Next, existence of the reciprocal relations suggested by the theory discussed was confirmed empirically only during the house price upturn and asymmetry in speed of downward adjustment was found in the opposite case, pointing out at the redistribution effect abrupt changes in house prices have in time. The results derived finally allowed to assess possibilities of better employment of anti cyclical regulatory tools towards eliminating mutually enforcing powers between the cycles and avoiding both financial and macroeconomic imbalances in future.