"Understanding Booms and Busts in Housing Markets"

Some booms in housing prices are followed by busts. Others are not. It is generally difficult to find observable fundamentals that are useful for predicting whether a boom will turn into a bust or not. We develop a model consistent with these observations. Agents have heterogeneous expectations about long-run fundamentals but change their views because of "social dynamics." Agents with tighter priors are more likely to convert others to their beliefs. Boom-bust episodes typically occur when skeptical agents happen to be correct. The booms that are not followed by busts typically occur when optimistic agents happen to be correct.