This paper explores the economic costs of conflict using a unique natural experiment. We analyze the housing market effects of Hezbollah’s massive rocket attack against northern Israel during the Second Lebanon War of 2006 and the continued threat posed by the organization’s expanding rocket arsenal. To conduct the analysis we merge information on the location of rocket hits during the war and detailed housing market data for 2000-2012. Relying on a hedonic approach and using a difference-indifferences identification strategy, the analysis shows that the rocket attack had a large and enduring effect. House prices declined by 15%-20% in the north relative to a control group of localities in southern Israel, and by 6% in the most severely hit localities relative to others in the north. We also find that rents declined by 12% in the north relative to the south. These effects proved to be highly persistent, which suggests that the Israeli public may be skeptical about the government’s ability to contain the rocket threat.

This seminar is held on Sunday, March 31, 2014, at 11:00 in Room 228, School of Economics, IDC Herzliya.