

Analysis of Causes of China's Real Estate Price Fluctuation and Policy Suggestions based on Behavioral Economics Theory

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Abstract. In recent years, China's real estate industry has developed rapidly. With the development of the real estate industry, housing prices in various places have also risen rapidly. The level of house prices is not only related to people's livelihood, but also affects the stable development of society. Based on the perspective of behavioral economics, this article analyzes through the "herd effect", contextual attribution theory, "reference point effect" and cognitive dissonance theory that the reasons for the continuous rise in China's real estate prices are, the psychological activities and behaviors of consumers and investors are irrational, and irrational behaviors have caused the continuous rise in real estate prices. At the same time, this article provides relevant suggestions and opinions for individuals, businesses, and governments, with a view to curbing the livelihood problems caused by rising house prices, while ensuring the stable development of the economy and society.

Keywords: Real estate price fluctuations; Behavioral economics; Herd effect; Attribution theory.

1. Introduction

In the past decade, China's real estate market has developed rapidly. With the rapid development of the real estate market, China's housing prices also remain high, and the growth rate is rapid. In addition to the real estate market being closely related to the basic needs of people's lives, real estate finance is also an important part of China's current financial system, more importantly.

There are many factors that have caused the continuous rise in house prices: macroeconomic policies, land supply policies, land finance, and other factors will change house prices. but it is undeniable that the behavior of consumers and investors is also one of the main factors in the change of the house price ratio. The behavior of consumers or investors will inevitably affect the changes in house prices. This article starts with behavioral economics theory, and analyzes the phenomenon that causes China's housing prices to continue to rise based on the "herd effect", contextual attribution theory and cognitive dissonance theory, provides a perspective for analysis.

2. Research Review

2.1 Related Literature on Real Estate Price Fluctuation at Home and Abroad

Case and Shiner (1990) believes that the US real estate market does not meet the expectations of an efficient market, and many factors have caused the market to be ineffective. Hort (1998) analyzed the model and concluded that the reasons for the rise in house prices were long-term income and cost factors. Bertrand (1999) believes that changes in house prices are related to factors such as lending by financial institutions.

Zheng Shigang (2016) used data analysis and concluded that the factors affecting house price fluctuations include land monetary policy and land policy. Inflation caused by monetary policy will inevitably lead to an increase in house prices. Yu Huayi (2010) research found that China's strict land supply system has caused a shortage of land available for construction, which has caused real estate companies to have difficulty in acquiring land, and the lack of quantity has caused price increases.

2.2 Research on the Fluctuation of Real Estate Prices from the Perspective of Behavioral Economics

Case and Shiller (2002) found that consumers sent to regions and underdeveloped regions have different willingness to buy a house. Consumers in developed regions are more willing to purchase a house, and the economy is developed, which makes it easier for consumers to engage in speculative behavior. Salzman and Zwinkels (2013) argue that in addition to its commercial nature, real estate has its emotional nature. In most people's eyes, the house is not a commodity, but also a symbol of its emotional destination and social status.

Domestic scholar Guan Tao (2003) believes that emotions, cognitive biases and consumer psychological activities will affect price changes in the real estate market. Gao Changsen and Chen Mingzheng (2012) believe that loose domestic credit conditions have led to an increase in house prices. They believe that loose credit conditions make it easier for investors to obtain funds, thereby relaxing their vigilance and making irrational investment behavior.

3. Analysis of Real Estate Price Changes based on Behavioral Economics

From the time of Adam Smith, Western economics has agreed that people are self-interested. However, in the basic theories and models established by economics, there is always an attempt to create an idealized, unrealistic economic environment, which will derail economic-related research from reality. Therefore, behavioral economics is to make up for the vague and ideal setting of traditional economics. By judging and analyzing the individuals of economic implementation, they can correct their behavior, and finally achieve the optimal choice of individuals and the maximization of individual interests.

Changes in real estate market prices are the result of consumer and investor investment activities in the real estate market, and they are also an important reference standard for whether individuals enter the market. Therefore, from the perspective of behavioral economics, this article analyzes the causes of housing price changes.

3.1 Perspective based on "Herd Effect"

The "herd effect" stems from observations of herds, and it has been found that any one of the sheep in the flock may cause the herd to behave similarly. Through this phenomenon, people think that people will also perform irrational behaviors, and people will follow others' behaviors blindly.

At present, there are also a large number of "herd effects" in China's real estate market. Investors or home buyers invest because of others' investment in real estate. Regardless of whether others' judgments are rational or not, they hold a "Everyone is doing it, I should also do" blind obedience. From the perspective of economics, according to the theorem of supply and demand, under the condition of a certain amount of supply, an increase in demand will inevitably cause an increase in prices. When the number of home buyers increases, when the number of homes is constant, real estate developers will choose to increase prices, which also explains the reason for rising house prices.

3.2 Based on Situational Attribution Theory

Generally speaking, changes in house prices are closely related to consumer disposable income. During the period of rising house prices, consumers cannot make a rational analysis. They will think that this is related to the favorable macroeconomic conditions, such as: the economy is booming, disposable income is increasing, and pain rates are decreasing. But these consumers, who consider themselves sane and predictable, are indeed unreliable. Consumers interpret this phenomenon based on their judgment of external things.

In the real estate market, the irrationality of consumers will cause the attribution phenomenon mentioned above. As mentioned earlier, the prosperity of the real estate market and the irrational investment behavior of consumers affect each other, so consumers' judgments on the prosperity of the real estate market are not accurate. In fact, once consumers are rational, they will find that the real estate market is a "false boom."

3.3 Based on Cognitive Dissonance Theory

When the best solution of self-perception is different from the optimal solution in reality, cognitive dissonance will occur. The core of cognitive dissonance is the inconsistency between individual subjectivity and reality. Based on what they have learned and past experience, people think that their judgments are correct, and they are in conflict with things that conflict with them in reality. When the decision made is significant, the decision maker will only focus on the information that is good for the results, and ignore the information that is not good for the results.

In China today, housing seems to be the most important event for the people. Whether or not to own a house has become an important indicator of personal happiness. The house is no longer a simple residential property, as if it has become a symbol of status, value and ability. When buying a home during the real estate boom, people collect a lot of information to support their point of view: home prices never rise. Such behavior will make consumers and investors blind and arrogant. When entering the real estate depression period, people will collect a lot of information to support their views: house prices will eventually bottom out. People always expect to find information consistent with their own judgments, and they have confirmed their judgments.

4. Policy Suggestion

In view of the current situation of housing prices in China, I make a few suggestions and opinions.

First, for those in the real estate market, they should reasonably identify their own needs. For individuals who have no short-term purchase or investment needs, they can choose to wait and see or other forms of investment. For individuals with short-term home purchase or investment needs, they need to exercise caution, master more complete market information, make more rational judgments based on their income, and choose a suitable time to enter the market.

Second, for the market regulator, the government, it should first use macro policies to guide the government. Through the adjustment of interest rates, the government can exclude more speculative consumers and investors from entering the real estate market. Strengthening the control of financial institutions and addressing the issue of credit easing from the root cause can reduce the entry of speculators who are not tightly regulated into the real estate market, which is beneficial to the stability of the real estate market.

Third, for the real estate market supplier, all information about real estate should be announced to truly announce the number of houses, and at the same time, real estate should be sold in strict accordance with relevant industry laws or regulations, so as to "not conceal the report and not sell it secretly." Real estate companies also need to understand their important role in maintaining economic stability and maintaining national stability.

5. Summary

The rise of China's housing prices stems from the incompleteness of the market. At the same time, consumer psychological fluctuations have caused their own irrational consumption and investment behaviors. Such irrational consumption and investment behaviors have ultimately led to rising housing prices. At the same time, the article puts forward some opinions on demanders, suppliers, and supervisors through relevant theories and perspectives of behavioral economics. It is hoped that relevant measures can be used to curb the continuous rise of China's real estate prices and protect the people's livelihood while maintaining the financial system stability.

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