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## **ABSOLUTE INCOME INEQUALITY AND RISING HOUSE PRICES**

### **Abstract:**

Income inequality and house prices have risen sharply in developed countries during the last three decades. We argue that this co-movement is no coincidence but that inequality has driven up house prices on the grounds that it raises the total demand for houses, which inflates their prices considering supply restrictions. To test this hypothesis, we conduct cointegration tests for a panel of 18 OECD countries for the period 1975-2010. The results suggest that income inequality and house prices in most OECD countries are positively correlated and cointegrated, and that in the majority of cases absolute inequality Granger-causes house prices when measured in absolute terms. Relative inequality, on the other hand, is not cointegrated with house prices, which is expected given that total house demand depends on the absolute amount of investible income.

### **Keywords:**

Personal Income Inequality, Absolute Inequality, House Prices, Asset Price Inflation, Asset Bubbles

**JEL Classification:** D31, G12, C50