



Jakob B Madsen
Institute of Economics
University of Copenhagen
Studiestraede 6
1455 Copenhagen K
Denmark

Ph + 45 35 32 30 05
Fax + 45 35 32 30 00
E-mail Jakob.Madsen@econ.ku.dk

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Evaluation of the Masters Dissertation by Jens Kjær Sørensen entitled, "The Dynamics of House Prices: International Evidence".

Using data for house prices since 17th century this thesis examines the determinants of house prices, the historical movements in real prices and the creation and bursts of house price bubbles in history. In order to investigate the determinants of house prices Jens establishes a model of the determinants and the dynamics of house prices, which is used to estimate the short and the long run determinants of house prices. The model is used to assess the fundamental value of house prices. In order to test the model Jens has collected data for a century or more for the Netherlands, UK, the US and Norway. Finally, the thesis contains discussions of the historical path of house prices with a particular focus on periods of housing price bubbles.

The thesis has a blend of theory, empirical estimates and practical applications. Jens shows that he has a good command new time-series technique, economic theory and economic history. Furthermore, and there is a clear correspondence between the theoretical, empirical and histographic parts of the thesis. Overall the thesis constitutes a solid piece of theoretical and empirical work that shows that Jens has good command of core concepts in macroeconomics.

Since I last evaluated Jens' thesis in 2006 houses prices have been edging down in most nations and housing prices are expected to fall substantially in real terms in the OECD countries. Jens wrote his thesis shortly before house prices in the OECD peaked, which suggests that Jens was one of the few economists that predicted that house prices, at least in real terms, would fall substantially. Jens even explained the importance of credit, new loan types and interest rates in relation to the initiation of the bust. Further on Jens demonstrated great understanding of the impact that a bust would have by describing that a credit and financial crisis potentially could lead to a global recession.

This not only shows that Jens has strong understanding of the forces that were driving housing markets internationally, but also understand the limitations of economic models that are based on the rational expectational paradigm.

Jakob Brøchner Madsen
Professor of Economics