The Speculation Channel and Crowding Out Channel: Real Estate Shocks and Corporate Investment in China*

Ting Chen†, Laura Xiaolei Liu‡, Wei Xiong§, Li-An Zhou¶

May 2017

Abstract

This paper analyzes how real estate shocks affect corporate investment in China. In addition to the widely documented collateral channel, we also uncover two other channels: the speculation channel—rapidly rising commercial land prices induce manufacturing and service firms to buy more commercial land, which is unrelated to their core businesses, and to reduce other investments and innovation activities; and the crowding out channel—in response to rising land prices, banks grant more credit to land-holding firms, crowding out financing to non-land-holding firms. Through both channels, a 100-percentage-point increase in land price leads to 2.1-3.8 percentage points of TFP losses due to misallocation of capital.

Keywords: Land Prices, Collateral Channel, Speculation Channel, Crowding Out Channel, Misallocation of Capital

JEL Codes: E44, G21, G31

* PRELIMINARY DRAFT. We thank Jeffrey Callen, Louis Cheng, Harrison Hong, Ruobing Li, Xuewen Liu, Alexander Ljungqvist, Charles Nathanson, Sheridan Titman, Qian Sun, Kam-Ming Wan, Michael Weisbach, Pengfei Wang, Steven Wei, Yong Wang and seminar participants in various seminars and workshops for helpful comments.

† Princeton University and Chinese University of Hong Kong, Shenzhen
‡ Guanghua School of Management, Peking University
§ Princeton University and NBER
¶ Guanghua School of Management, Peking University