

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[¶]

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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

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[†] 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