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Patrick Bayer , Marcus Casey , Fernando Ferreira ,
Robert McMillan

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Racial and Ethnic Price Differentials in the Housing Market*

Patrick Bayer
Duke University and NBER

Marcus Casey
University of Illinois at Chicago

Fernando Ferreira
The Wharton School, University of Pennsylvania and NBER

Robert McMillan
University of Toronto and NBER

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Abstract

Constrained choice sets due to discrimination in the housing market should, as Becker noted, lead minorities to pay higher prices for comparable housing. This paper tests for the presence of such racial and ethnic price differentials using a rich new dataset that covers two million repeat-sale housing transactions from four major metropolitan areas. Our analysis applies a repeat-sales framework, including house and neighborhood-by-time fixed effects to control for unobserved differences in the quality of homes and their associated neighborhoods. The results indicate that black and Hispanic homebuyers pay premia of around 2 percent on average across the four cities – differences not explained by variation in buyer income or access to credit. Further, we show that black and Hispanic buyers pay significant premia regardless of the race or ethnicity of the seller. Such racial/ethnic disparities in the prices paid for comparable homes have implications for the persistence of racial differences in home ownership, neighborhood segregation, and the dynamics of wealth accumulation.

JEL Codes: H0, J15, K4, R2, R3

Keywords: Price Differentials, Housing Market, Racial Differences, Racial Prejudice, Repeat-Sales Approach

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