

The Effect of House Price Shocks on Individual Divorce Risk in Australia

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Abstract

Becker's theory of marriage and divorce is closely linked to marital-specific capital. Housing is often the largest single asset in a household's portfolio. This paper examines how house price shocks affect individual divorce risk in Australia. The analysis uses data from the HILDA Survey. House price shocks are constructed using an SVAR-FE model. The results show asymmetric effects on the probability of marital dissolution. A negative house price shock is associated with a significant increase in dissolution risk. A one-unit decrease in the shock increases the average probability of divorcing in the following year by about 0.37 to 0.46 percentage points. By contrast, a positive house price shock has no significant effect. The effects are stronger for renters, high-income families, highly educated individuals, young couples, couples with children, households with high mortgage debt, rural residents, and households with more than one earner. The results are robust across alternative specifications.