**Title:** Modelling income and house price processes for the UK

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**Abstract**

In order to examine dynamic choices under uncertainty, some modelling of individual expectations regarding future variables is necessary. In the context of household mortgage borrowing and saving decisions, particular interest lies in processes for forecasting household income and house prices. Using data from the British Household Panel Survey, the System GMM estimator proposed by Arellano and Bover (1995) and Blundell and Bond (1998) is implemented to estimate dynamic models for these variables. This estimator has been shown to produce consistent and efficient estimates when the series are persistent but stationary.

The aim is to derive estimates of the conditional means and variances of income and house prices to incorporate into a bivariate discrete choice model of household saving and mortgage borrowing.