

Research on Promoting Balanced Development of Finance, Real Estate and Real Economy in Constructing New Development Pattern

Zhuo Li

School of Economics, Yunnan University, Binzhou, Shandong, 100835

Keywords: Financial economy; Real estate; The real economy; Virtual economy

Abstract: The macro-control of the real estate market has gone through ten years, but the effect is not satisfactory. On the contrary, the house price has risen sharply in several rounds of regulation, which makes the macro-control policy of real estate issued by the central government become a bubble. Compared with real estate investment, physical investment is still profitable, and the increase of financial scale will not lead investors to allocate a large number of financial assets into real estate. Therefore, the rising financial scale aggravates the bubble's inhibitory effect on real economy investment. With the rapid development of financial economy towards virtual field, the unbalanced development of real economy and financial economy has become an important factor restricting the steady development of economic market. In the construction of new development pattern, based on the influence of financial economy on real economy, this paper further clarifies the ways to achieve balanced development of financial economy, real estate and real economy.

1. Introduction

Nowadays, the degree of virtualization of the global economy is constantly improving, and the virtual economy is increasingly separated from the real economy and becomes a relatively independent economic activity field. The slowdown of productivity growth leads to the weak growth of the real economy, and resources are allocated to non-real sectors such as finance and real estate. Many companies break the financial constraints by borrowing, and the government uses demand stimulation to stabilize the economy [1]. The real economy has laid a solid foundation for the financial economy, which is also the support for the development of the real economy. Finance and real economy are inseparable, and they are interdependent and complement each other. In view of the importance of the real estate industry and many industries in its upstream and downstream industrial chains to China's economic development, it is more realistic to evaluate the actual economic effects of the allocation of financial resources in the real estate industry [2]. At the same time, due to the different levels of economic development and real estate development in different regions of China, this evaluation should be based on the heterogeneous conditions of different regions.

The development of China's real estate industry and housing construction must be compatible with the basic national conditions of China's large population and small land, the requirements of building a resource-saving society, and the reality that China's housing security system is being vigorously promoted and improved [3]. The traditional view regards the development behavior of real estate as a market activity of real economy, emphasizing how to standardize the business behavior of real estate enterprises, promote the development and perfection of the real estate market, and finally achieve the stability of house prices [4]. In the process of building a new development pattern, clarifying the logic of real estate bubble's impact on real economy investment, rationalizing its impact mechanism, and making targeted policy adjustments are becoming important issues to be solved urgently by decision makers and academia.

2. Duality of real estate economy and virtual economy

Real estate is not only a kind of physical assets, but also a combination of rights and interests. This also means that it contains both physical assets and virtual assets. Therefore, real estate has the

duality of reality and reality. In China, the asset bubble caused by the long-term departure of the real estate price from the basic value and the high return has a far-reaching impact on the real economy investment. When securities can be bought and sold in the securities market, because they have no value, their prices are determined not according to the objective law of value, but according to people's subjective prediction of future prices, and are also affected by their supply and demand, which makes their prices more divorced from the benefits of actual economic activities. The expected and unexpected changes in real estate value not only affect the output value and employment of financial sector, construction sector and many other related sectors, but also the changes in family housing value also affect consumer consumption.

The price level adjustment of virtual economy is shown in Figure 1. Because the price system of virtual economy is flexible, the market can be cleared at all times [5]. Therefore, when the money supply M suddenly increases, the price level will be adjusted rapidly in the short term, from P_0^* to P_1^* in the short term, and then slowly return to the equilibrium price level P_2^* in the long term.

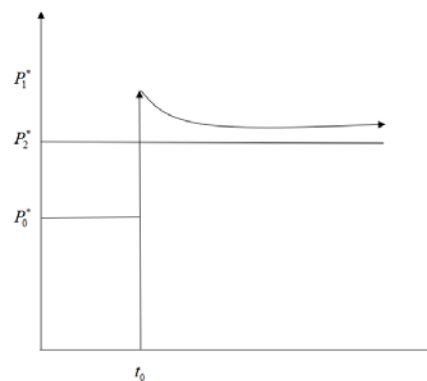


Figure 1 Slow changes in the price level of virtual economy

When exogenous money supply suddenly increases, the price level of virtual assets rises immediately, but gradually falls back to equilibrium price in the long run. Eventually, when there is no sustained impact, the real economy and the virtual economy will adjust to the equal equilibrium price level in the long run.

With the continuous development of financial economy to the virtual field, the advantages of virtual economy also appear. Some speculators in the real economy who pursue high returns are attracted by their high return on investment, which leads to the entity enterprises entering the ranks of virtual economy one after another. During the period of obtaining technology monopoly rent, the contribution of technological innovation to improving labor productivity is limited, and only in the stage of technology imitation and technology diffusion can labor productivity be greatly improved. Because of the capital increment and stock input, the production of the production department with higher profit greatly increased, until the supply exceeded demand, and the commodity price of the department dropped greatly, which caused the profit rate to drop. In real estate transactions, the objects and processes are mainly aimed at the property rights of real estate, and more are purely capital operation, and the way of capital appreciation is not due to the increase in the number of transaction objects. Based on the above analysis, we believe that the growth of China's real estate bubble has significantly hindered the investment of the real economy.

The instability of virtual economy comes from the virtualization of its currency, that is, the currency does not really have value. Of course, due to the existence of financial friction, enterprise investment is often realized through mortgage loans, which makes the price of mortgage assets positively correlated with the scale of enterprise loans [6]. Workers need to recombine various means of production to build a house, and finally sell the real estate products produced to buyers, so that the enterprise realizes profits and value-added in the process of this economic activity. This requires people to adapt to a certain real estate market to carry out other basic activities. The close connection between the space economy and the real estate market at least indicates that the potential ineffectiveness of the real estate market may have an impact on a larger part of the economy.

3. Specific ways and mechanisms of interaction between virtual economy and real economy

3.1 The direct influence of virtual economy on real economy

Although the prices of stocks and real estate are supported by concepts and based on capitalization pricing behavior, the prices of services and labor provided by stockbrokers and real estate industry-related personnel for virtual economic trading activities are not based on capitalization pricing behavior, but belong to the content of real economy [7]. The rapid influx of credit funds into the real estate market directly squeezes the financing sources of real economy investment, increases the difficulty and cost of financing, and intensifies the inhibitory effect of real estate bubble on real economy investment; Especially when the real estate price rises, the real estate holders will estimate their nominal wealth according to the latest price. If the price increase in the past is extrapolated when the expectation is formed, the speculation of optimistic investors on the continued appreciation of the price is likely to lead to the classical speculative bubble.

The change of money supply, asset price and price level causes the circular flow of money between real economy and virtual economy, which indirectly affects the demand and output of real economy. The relationship among virtual economy, real economy and money supply needs to be explained in combination with the improved money demand formula and money cycle diagram. The transmission relationship among money supply, real economy and virtual economy can be illustrated with Figure 2 [8].

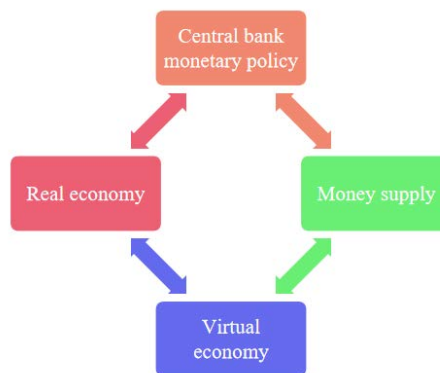


Figure 2 Framework of relationship among currency, fictitious economy and real economy

If the general price level of securities is expressed by SP , the quantity of securities is expressed by SQ , the money supply is expressed by M , and the currency circulation speed is expressed by V , then the formula of the quantity of money should be expressed as

$$M \cdot V = P + SP \cdot SQ \quad (1)$$

When the monetary authorities increase the money supply, the money will flow to the virtual economy and the real economy. Money demand should not only consider the needs of the real economy, but also the needs of the virtual economy.

The high profits of the financial industry will have a significant inhibitory effect on the real economy. For example, the high profits of the banking industry are extracted from the value created by the real economy, which will lead to the hollowing out of the manufacturing industry. Structural service will inevitably lead to the decline of labor productivity, because the growth rate of labor productivity in service industry is lower than that in tradable sectors such as industry. On the one hand, the virtual economy leads to serious oversupply of resources due to high profits; on the other hand, the real economy is unprofitable, and the cost is soaring due to the pull of the virtual economy, which leads to the resource flight and the demand exceeds supply.

3.2 The symbol of balanced development of real economy and virtual economy

Although the virtual economy and the real economy are closely related, they are two different economic forms after all. Their respective operation modes, operating characteristics and service

objects are all different. The scale efficiency of service industry cannot be compared with that of industry, which is often called non-tradable sector. Internet technology has improved the tradeability of service industry, but the degree is still relatively low, and the efficiency improvement brought by scale is still weak. Quarterly real estate prices only incorporate about half of the market news, while quarterly stock prices fully absorb new information. By means of stocks, funds and trusts in the virtual market, a large amount of financing funds are obtained, which greatly increases their enterprise strength. The collateral effect strengthened by the improvement of financial efficiency has increased the investment in the real economy to a certain extent, thus weakening the blocking effect of the whole real estate bubble on the investment in the real economy.

From the general accounting of labor productivity, according to the CD production function, both sides are divided by labor L at the same time, and the labor productivity growth rate is equal to the sum of TFP (Total Factor Productivity) growth rate and capital deepening growth rate. Therefore, the improvement of labor productivity depends on the quality of workers, TFP and capital deepening. Labor productivity index is very stable, which is easier to calculate than TFP, and it is the most important observation index directly compared with labor remuneration [9].

$$Y = AK^\alpha L^{1-\alpha} \quad (2)$$

Among them, it represents total factor productivity. From formula (2), A can be obtained

$$y = Y / L = A(K / L)^\alpha = AK^\alpha \quad (3)$$

y stands for labor productivity, and the logarithm of both sides of formula (3) can be derived as follows:

$$y' / y = A' / A + \alpha k' / k \quad (4)$$

It can be seen from formula (4) that the growth rate of labor productivity is affected by the rate of technological progress and the deepening of capital.

Asset prices affect consumer credit, and the classical life cycle model of consumption assumes that the capital market is complete, so that residents can allocate consumption expenditure in different periods according to their net wealth and permanent income. Because the loans of small and medium-sized banks are mostly for small and medium-sized enterprises, their rapid development enables small and medium-sized enterprises to obtain sufficient financing funds and increase their investment in the real economy through the mortgage effect of the real estate bubble. They can mortgage or guarantee stocks to banks or other financial institutions, and further refinance, so that they have sufficient funds, so that they have the strength to buy land for large-scale development all over the country, improve the efficiency of project development, and further expand market share. In addition, compared with the current income change and the expected future property income trend of the surrounding major markets in the same period, the change of commercial real estate price is more affected by the expected income change.

4. Balanced development channels of finance, real estate and real economy

4.1 Improve the construction of the financial and economic system

Nowadays, the development of financial economy has penetrated into all fields of society. In order to improve the positive interaction between the real economy and the financial economy, it needs the mutual cooperation and active interaction of all aspects of society. Technological progress is inconsistent with the discount time of real estate and finance. The former has long time and high risk, while the latter has short time and self-reinforcing characteristics, which leads to excessive leverage and high debt ratio of non-entity departments. Relevant research data show that: for small and micro enterprises with good operating conditions and full collateral, the loan interest rate is generally 30% higher than the bank benchmark interest rate, and the financing cost is 7.8%; Whether the real estate market is regarded as a capital market or a general commodity market, the lag of the price mechanism in reflecting information or other forms of failure will inhibit the

effective operation of the real estate market mechanism as a whole, and the advantages of market allocation of scarce resources will be weakened.

4.2 Improve the structure of real estate products and adjust the relationship between supply and demand

When the real estate bubble is low, the high-yield attraction of the bubble relative to the real investment is not obvious, and the bubble has little impetus to increase the production cost of enterprises by raising inflation expectations. China should guide the enterprise behavior of real estate developers through various policies, such as land policy, tax policy and credit policy, establish a multi-level housing supply system, increase the supply of small and medium-sized commercial housing, and increase the construction of affordable housing. Economists have always believed that if the behavior and expectation of market participants are rational, then the asset price only reflects its market basic value, that is, the asset price only depends on the information about the current and future income of the asset. It is necessary to analyze the capital flow of financial institutions in detail, starting from the micro, and drawing the existing problems and solutions from the macro.

4.3 Entity innovation and reducing financial risks

Gradually restore the equilibrium conditions of the real economy and the non-real economy. The first is to stabilize leverage, keep the debt ratio of the government, enterprises and residents stable, and appropriately reduce financial leverage; At the same time, banks should make active use of information technology, carry out information technology system engineering construction, gradually improve the risk internal control mechanism, and enhance the management ability of interest rate risk and exchange rate risk. If rational bubble has neutral effect, irrational bubble of real estate and abnormal price fluctuation will cause the market regulation function to fail in the whole society. On the one hand, it is necessary to reform the exchange rate and money supply model and increase market liquidity arrangements. On the other hand, it is necessary to reform the bond market and stock market financing system, support the sustainability of real economy and local government bond financing, prevent external financial shocks, and resolve financial risks; By improving the construction level of public services and basic facilities, and guiding investment diversion, we can truly achieve the goal of combining development with guidance and ensure the normal operation of the real estate market.

5. Conclusion

Today, with the rapid development of market economy, the real economy and virtual economy of real estate have become two indispensable parts of the real estate market, which promote and develop each other. A real estate market in which prices reflect information fully and timely, a real estate market in which prices are basically consistent with basic values, and a long-term stable and healthy development of the real estate market requires a systematic, coordinated and long-term real estate market regulation mechanism. First, we will continue to promote structural tax reduction, reduce taxes and fees in various production links of the real economy, and accelerate the transformation of taxation in China from production links to consumption links. Second, increase the intensity and scope of tax support. On the premise of perfecting the financial and economic system, we should strengthen the supervision of financial institutions, guide the financial economy to support the real economy, establish a healthy economic structure, and make contributions to the sustainable development of our national economy.

References

- [1] Chen Jian, gong Xiaoying. research on the coordinated development of real economy and virtual economy in the new era [J]. exploration of economic problems, 2018, 000(003):178-184.
- [2] Dacheng Enterprise Research Institute [1]. Industry-finance synergy promotes the development

- of real economy [J]. China Civil and Commercial, 2018, 000(008):P.30-37.
- [3] Wu bin. Unbalance and Regulation Mechanism of Real Estate Market: An Empirical Study Based on Unbalance of Guangxi Commercial Housing Market [J]. Housing and Real Estate, 2017, 463(14):69-74.
- [4] Ma Jingjing. Discussion on the development imbalance between finance and real economy [J]. Cooperative Economy and Technology, 2017(13):46-47.
- [5] Gao Xianzhong. Effectively enhance the ability of financial support for the real economy [J]. Jiangsu CPPCC, 2019(6):43-44.
- [6] Gao haibing. research on the causes and countermeasures of imbalance between China's economic financialization and real economy [J]. economic management digest, 2019, No.736(22):23-24.
- [7] Chen Zhigang, Wu Guowei, Zhang Hao. How does the real estate bubble affect the real economy investment [J]. Financial Science, 2018, 000(003):93-106.
- [8] Cai Zexiang, Wu Xueqiang. Research on the economic development efficiency of financial services entities under the new normal —— Empirical analysis based on provincial panel data [J]. Economic Issues, 2017, 000(010):14-25.
- [9] Chen Jian, gong Xiaoying. research on the coordinated development of real economy and virtual economy in the new era [J]. theoretical reference, 2018, 000(006):P.48-53.