

SA422: HOUSING ECONOMICS
AND FINANCE 2008/09

STRUCTURE

1. INTRODUCTION to ECONOMICS
FINANCE
2. ECONOMICS Lectures
Classes
Seminars – exercises using the economic
concepts
3. FINANCE Lectures
Seminars – presentations
4. ECONOMICS AND FINANCE APPLIED
Overview of relevant economic finance concepts
Seminars – presentations
5. REVISION SESSIONS
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EXAMINATION
(see Web for examples)

TEACHERS:

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(contact details on handout)

TEACHING TIMES:

Thursdays 10 – 1

Economics Prerequisite Class 9 – 10

(weeks 2-8)

READING

Preliminary:

LeGrand *et al*, chapters 1, 5 and 10

Economics:

General: Lipsey or Begg

Housing: Oxley

Fallis

Finance:

Gibb *et al*

Policy and Statistics:

Stephens *et al*

Mullins & Murie

Wilcox

WHY HOUSING ECONOMICS?

HOUSING IMPORTANT

for the economy

for people

for government policy

ECONOMICS IMPORTANT

Allocation of Resources

Distribution of Income and Welfare

STARTING POINT:

RESOURCES ARE SCARCE

WANTS ARE INSATIABLE

↓

NEED TO MAKE CHOICES

BASIS OF CHOICE

OPPORTUNITY COST

- the value of the best alternative foregone

OBJECTIVE:

TO MAXIMISE WELFARE

Individual

Social

IMPLIES USE OF OPTIMISING MODELS

Max welfare

Min cost

Best alternative foregone

What do we mean by welfare/social welfare?

FUNDAMENTAL OBJECTIVES

EFFICIENCY

PRODUCTIVE

Physical resources

Minimum cost – in opportunity cost terms

ALLOCATIVE

Generate highest possible welfare from what available

One definition:

PARETO OPTIMALITY

MAX SOCIAL WELFARE when no-one can be made better off without making someone else worse off

Abstracts from DISTRIBUTIONAL ISSUES

EQUITY

MINIMUM STANDARDS

OPPORTUNITIES across
SIMILAR HOUSEHOLDS

REDISTRIBUTION to
LOWER INCOME HOUSEHOLDS

Equality?

How measure Income
 Input
 Output/Outcome

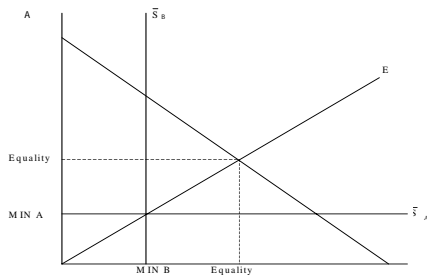


Figure 1: Minimum standards and equality (2 person example)

HOW ORGANISE ALLOCATION OF RESOURCES?

MARKETS - Private ownership
 Individual decisions
 Organised by PRICE

ADMINISTRATIVE

- Social/state ownership
- Central decisions
- Organised by QUANTITY

MIXED ECONOMIES

- Welfare state?

Figure 2: Economic Organisation



Figure 2.1 Market allocation and individual ownership

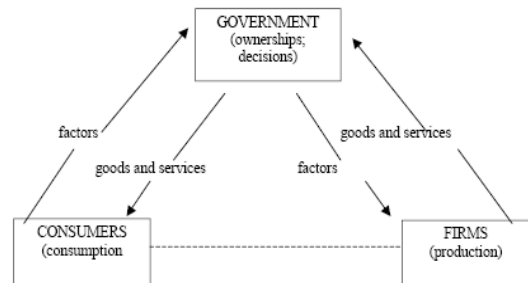


Figure 2.2 Command economy: state ownership and central control

Markets

ROLE OF PRICE

- Information – to consumers, producers, factors
- Incentive – given scarcity
- Rationing – bring demand in line with available supply

Use of PRICE implies resources go to highest bidder – i.e. where the VALUE will be highest
Importance of Distribution of Income

Demand, Supply and Equilibrium Price

Demand schedule – quantity demanded at each price given income, population, tastes and price of other goods

Supply schedule – quantity supplied at each price giving input costs, technology, price of related goods

Figure 3: The Market for a Good

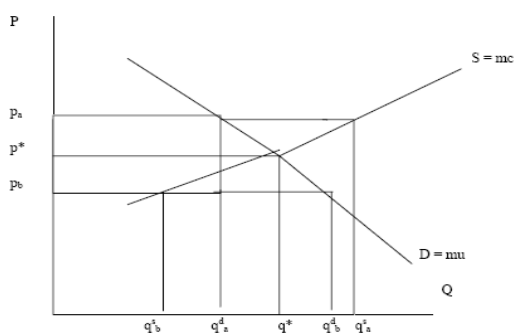


Figure 3.1: Demand Supply and Equilibrium

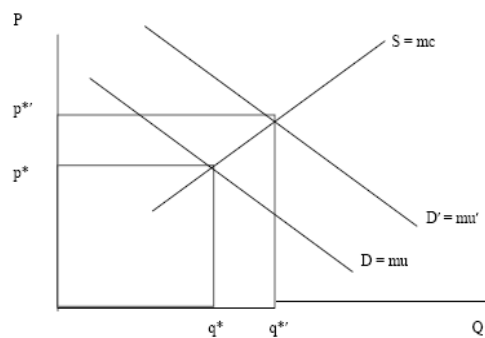


Figure 3.2: Impact of Increasing Demand

Equilibrium Price and Quantity

Equilibrium where

- (i) plans = outcome
and
- (ii) stable

Incentives to move to equilibrium

When do Equilibrium Price and Quantity Change?

When factors affecting Demand and Supply change

Example: increase in income shifts demand curve, move along supply curve to new $p^{*'}, q^{*'}$

Special attributes of housing

- Complex bundle of multiple attributes: necessary/luxury, asset/consumption good/different elements of dwelling
- Slow adjustment of supply and demand
- Housing takes a large proportion of income and wealth, but seen as necessary good
- Dependence on finance market by both consumers and producers
- Locationally specific nature of investment
- Longevity of investment and specificity/irreversibility of asset
- Problems of individual relationships
- Emphasis on housing in social policy

The Housing System

Mixed System

- market
- regulation
- taxation/subsidy
- direct provision and allocation