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

EXAMINATION
(see Web for examples)

TEACHERS:
CHRISTINE WHITEHEAD
JOHN HILLS
ALASTAIR JACKSON
GIOVANNI RAZZU
(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

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

Figure 2: Economic Organisation

CONSUMERS
  (Ownership of resources; Consumption of goods and services)

FIRMS
  (Production of goods and services)

Goods and services
Prices

Incomes
Factor inputs

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

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