

SA422 HOUSING ECONOMICS AND FINANCE 2008/2009
Economics Seminar Problem Set 2: Demand, Supply and Price
Week 4, Thursday 30 October 2008 11:30 – 12:45 in Room E304

1. “The higher the demand for housing the higher its price”. “If the price of housing increases the demand for housing will decline”. Reconcile these two statements.
2. What happens to the demand for housing if:
 - (i) the number of households increases;
 - (ii) average household income increases;
 - (iii) the incomes of poor households are increased by government subsidy?

What happens to the demand for rented housing if:

- (iv) the transactions costs of house purchase increase (e.g. by an increase in Stamp Duty);
- (v) housing benefit is further constrained for younger people?

In each case explain your answer.

3. The government in country A decides to control the rent on unfurnished rented accommodation. Clarify (i) what determines the extent of excess demand; (ii) how the quantity available might be allocated; and (iii) what might happen to the supply and demand for furnished accommodation.
4. (a) Define price elasticity of demand and income elasticity of demand.
(b) It is often said that the price elasticity of demand for housing is inelastic while the income elasticity is closer to unity. It is also said that the demand for some housing attributes is price and income inelastic and for others it is elastic.

Explain what is meant by each statement and discuss its implications for housing policy.

5. (a) Why is the total supply of housing price inelastic?
(b) Why is the supply of new housing relatively price inelastic? How might this supply elasticity differ between industrialised and rural economies?