

SA422: HOUSING ECONOMICS AND FINANCE 2008/2009
Seminar Problem Set 5: Reasons for Government Intervention
(Week 10, Thursday 11 December, 9 - 10 in Room E304)

1. Give a housing example of a positive externality. If provision is left to the market what will the price and quantity be as compared to the optimal level of provision?
2. Explain reasons why there is likely to be under-investment in repair, maintenance and improvement in the existing housing stock.
3. A consumer's income is £100. There are two goods, food (F) and housing (H). Food costs £2 per unit and housing costs £5 per unit. At these prices the consumer chooses 8 units of housing and 30 units of food. Assume the government decides to allocate housing directly and reduces the price of allocated housing to £3 per unit. The consumer would like to choose 12 units of housing and 32 units of food at these prices. The government however, decides to allocate 15 units of housing to the household at a price of £45. Show the effect on the consumer's utility of
 - i) the government's allocation policy;
 - ii) of the subsidised price without allocation constraints;
 - iii) of a government subsidy to income with original prices but raising the consumer's income from £100 to £130.
4. Does this analysis suggest that governments should always allow the market to set rents and simply subsidise the incomes of poorer consumers?