

Econ 2 - Lecture 2, 1/7/26

Lecture Quiz #1 Released today, on TopHat

Due on Monday, January 12th at 9:30 AM

↳ Only one chance per question

↳ Each question worth 0.2 to 0.25% (up to 10% of grade!)

Discussion Section Week #1: Meet TA, Google Form Problems

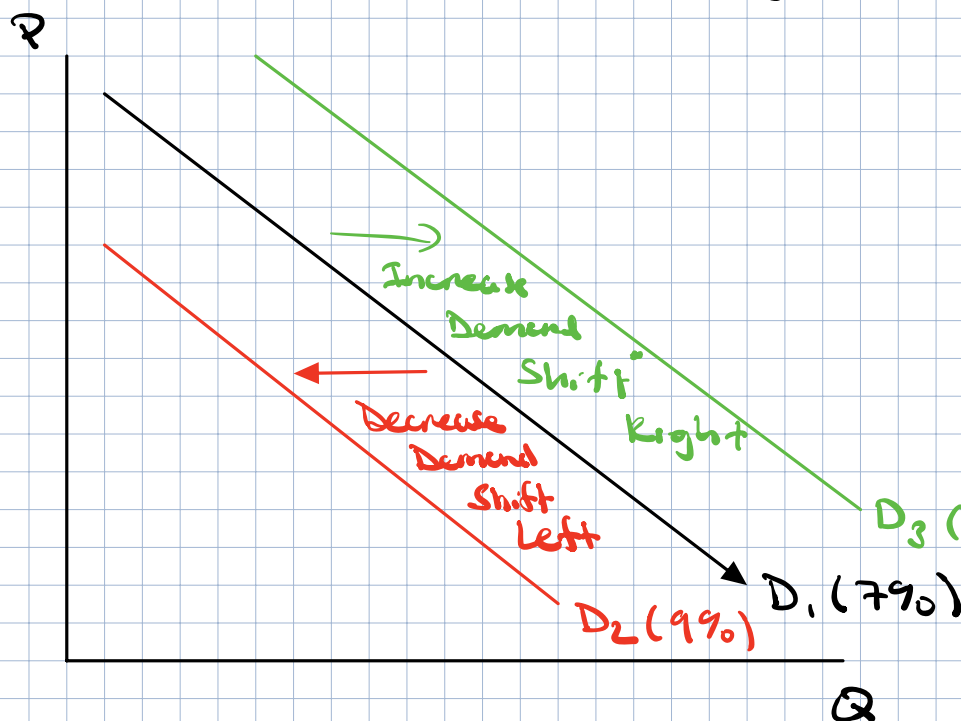
Discussion Section Week #2: Activity #1, Housing Analysis
(Video Posted)

Weekly Review Session: Friday, 3 & 4 PM, NH 1110

Longer, Difficult Questions Covered (traditional section)

Last Class: Housing Demand

Moving along Demand \Rightarrow Moving between buying and renting



Interest Rate 1 = 7%

Interest Rate 2 = 9%

Decrease demand to
buy homes, shift left

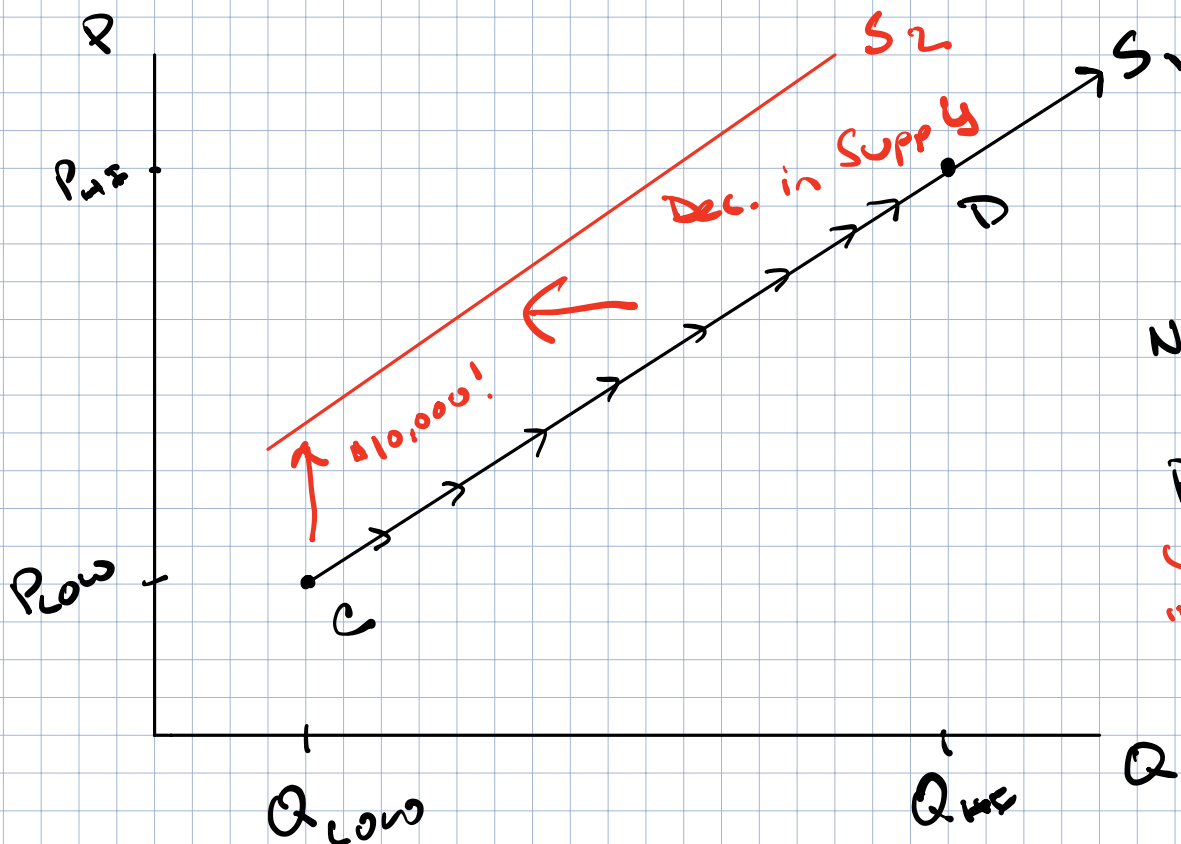
Interest Rate 3 = 5%

Increase Demand
Shift Right

Supply of Housing

Where does supply of homes for sale come from?

1. Existing homeowners, looking to move
2. Developers / builders of new homes



Shifts in Supply

New Home Builds \rightarrow

Pay \$10,000 tax

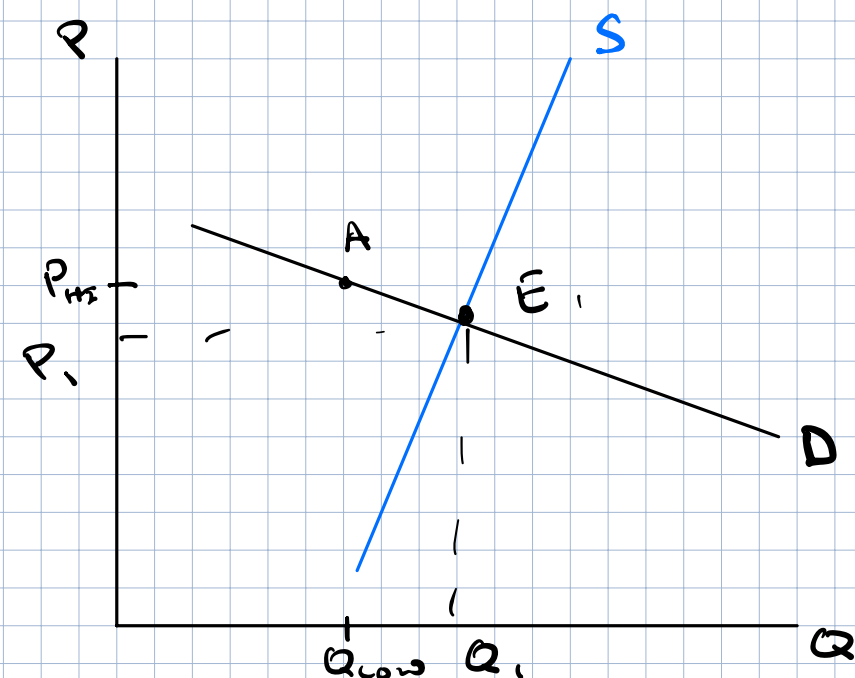
"Bad" for builders

\rightarrow Decrease in Supply

Shift Left

Overlay Supply & Demand

Which of our curves is more inelastic vs. elastic?



Shelter is more inelastic
Buy \leftarrow vs. Rent

Selling a home

\rightarrow Time to build a home!

\rightarrow More inelastic

\rightarrow Harder to respond

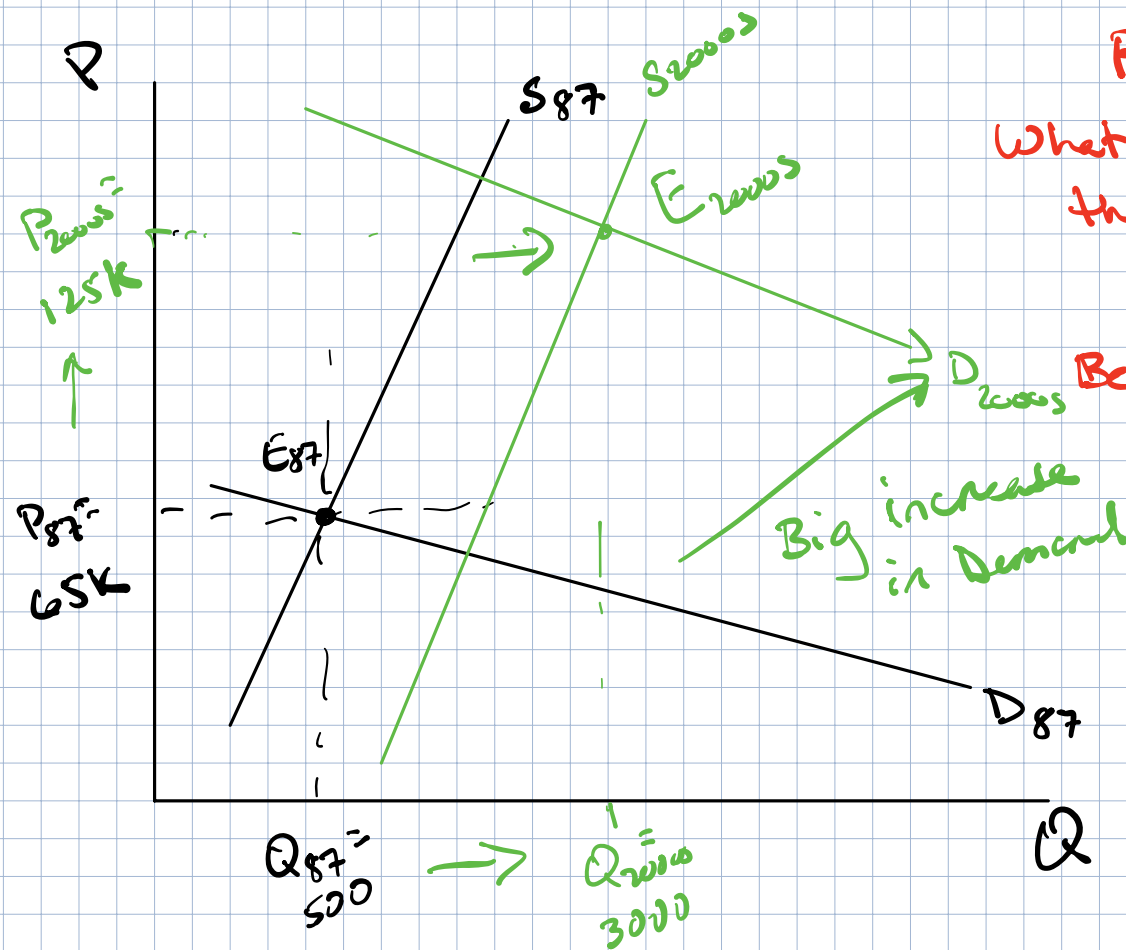
Las Vegas Housing Since 1980s

1987 Price = 65K

1987 $Q = 500$

2000s Price = 125K

2000s $Q = 3000$



$P \uparrow, Q \uparrow$

What explain
the change in
Price & quantity?
Between 1987 & 2000s



Housing Demand must have increased ($P \uparrow, Q \uparrow$)

Evidence that demand increased

- Income Rising
- General improvement in unemployment
- Decrease in Mortgage Rate

↓
Increase in
construction
 $S \uparrow$

Early 2000s: Home Prices Rising

Banks \Rightarrow Making lots of profit on payments + fees
 \hookrightarrow Offer loans \rightarrow remove risk?

Mortgage Backed Securities

\hookrightarrow Banks run out of buyers

\hookrightarrow Reduce borrowing requirements

Sub-prime borrowers

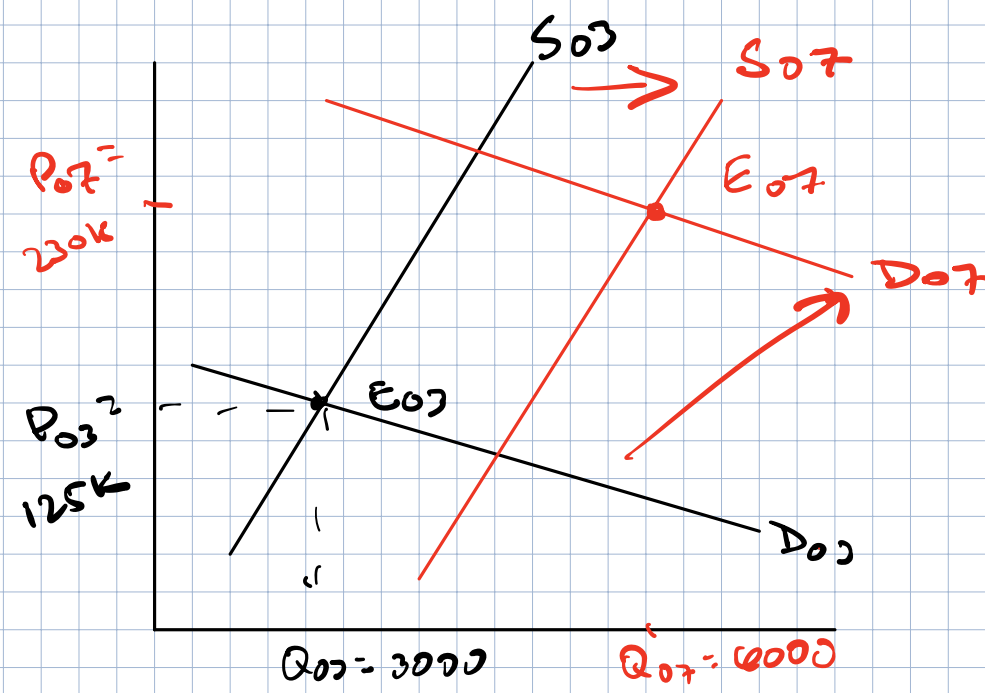
Speculation rises:

Buying an asset solely for reselling purposes

Model 2003 \rightarrow 2007 Housing Market

Price₂₀₀₃ = 125K, Q_{2003} = 3000

Price₂₀₀₇ = 230K, Q_{2007} = 6000



In 2006: slow price growth, rising rates (LRM)

