

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

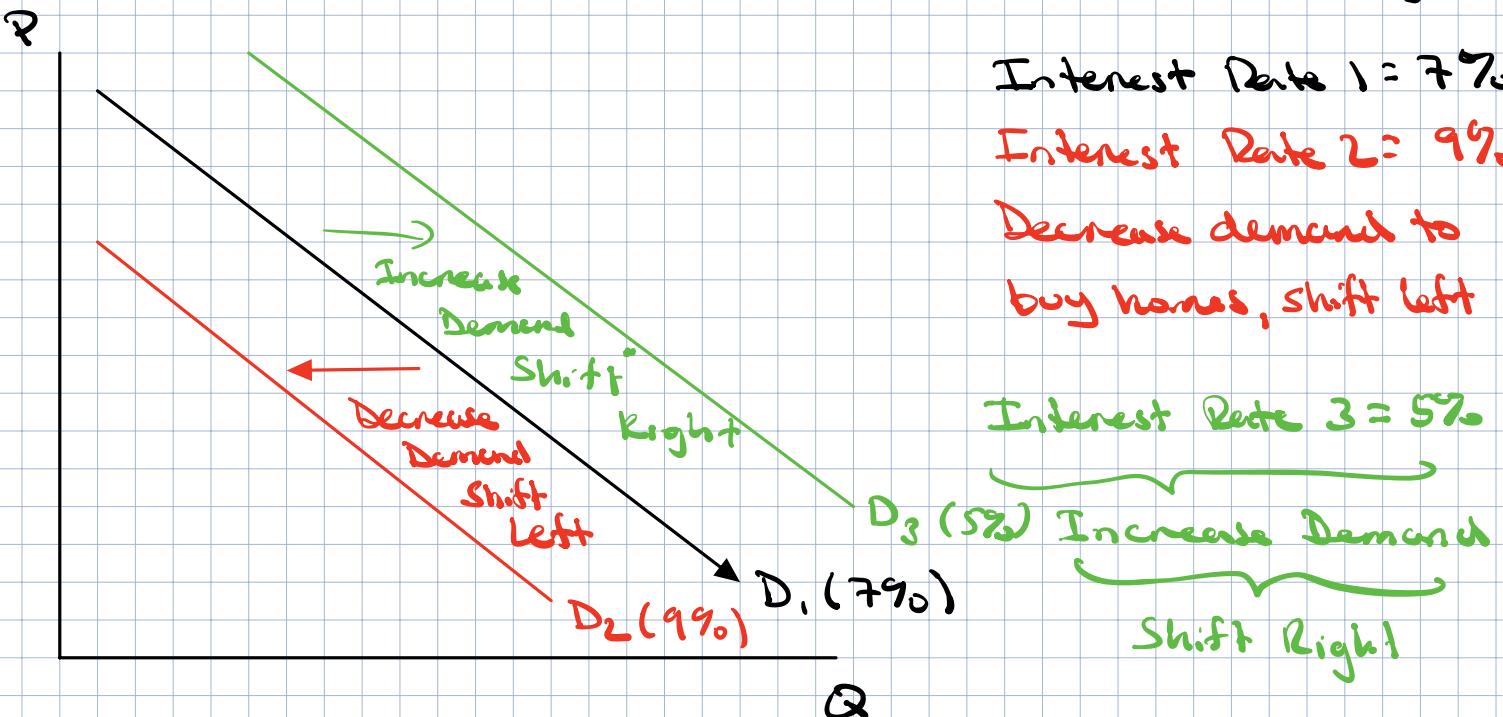
Discussion Section Week #2: Activity #1, Housing Analysis
(Video Posted)

Weekly Review Session: Friday, 3:30 PM, NH 1110

Longer, Difficult Questions Covered (traditional section)

Last Class: Housing Demand

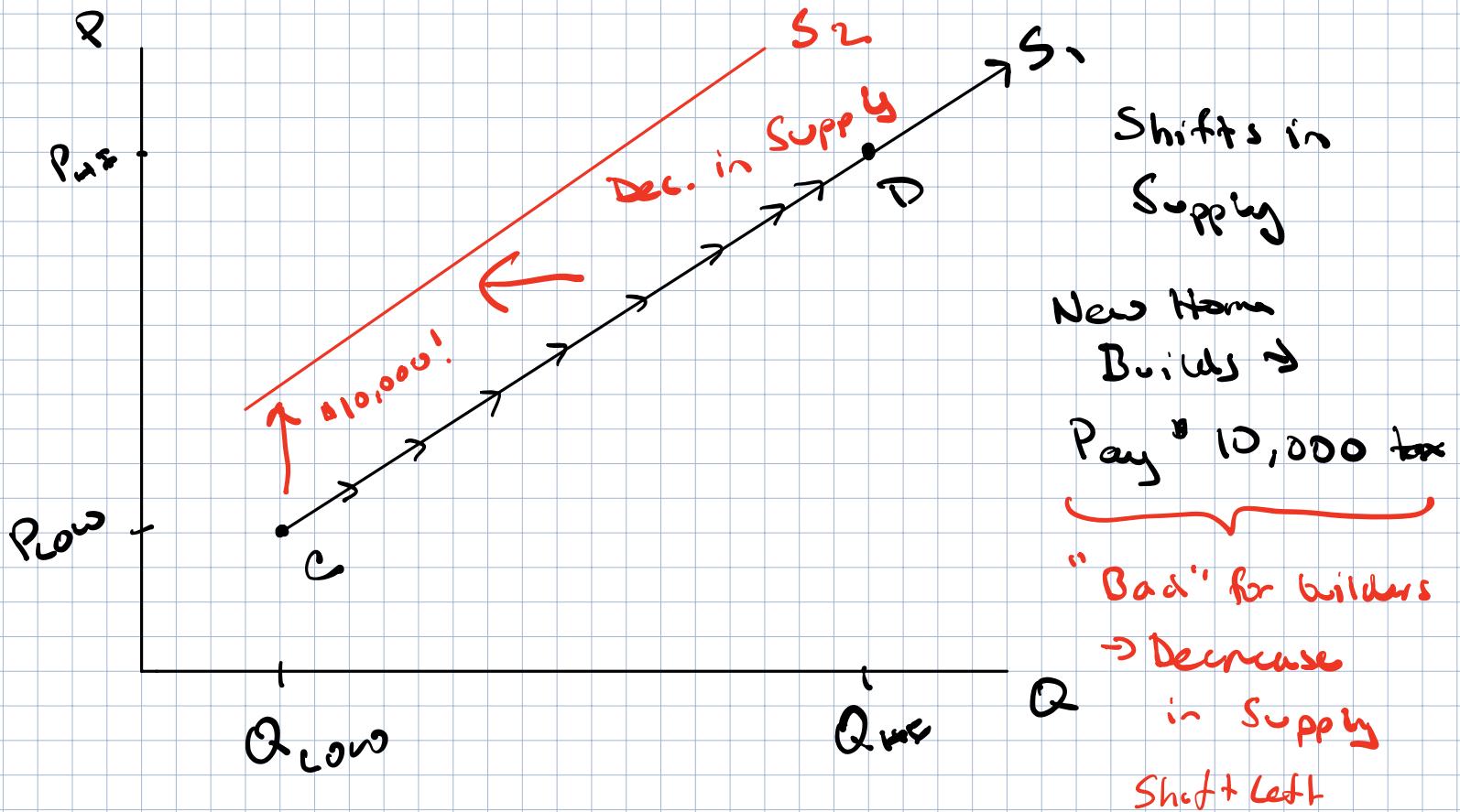
Moving along Demand \Rightarrow Moving between buying and renting



Supply of Housing

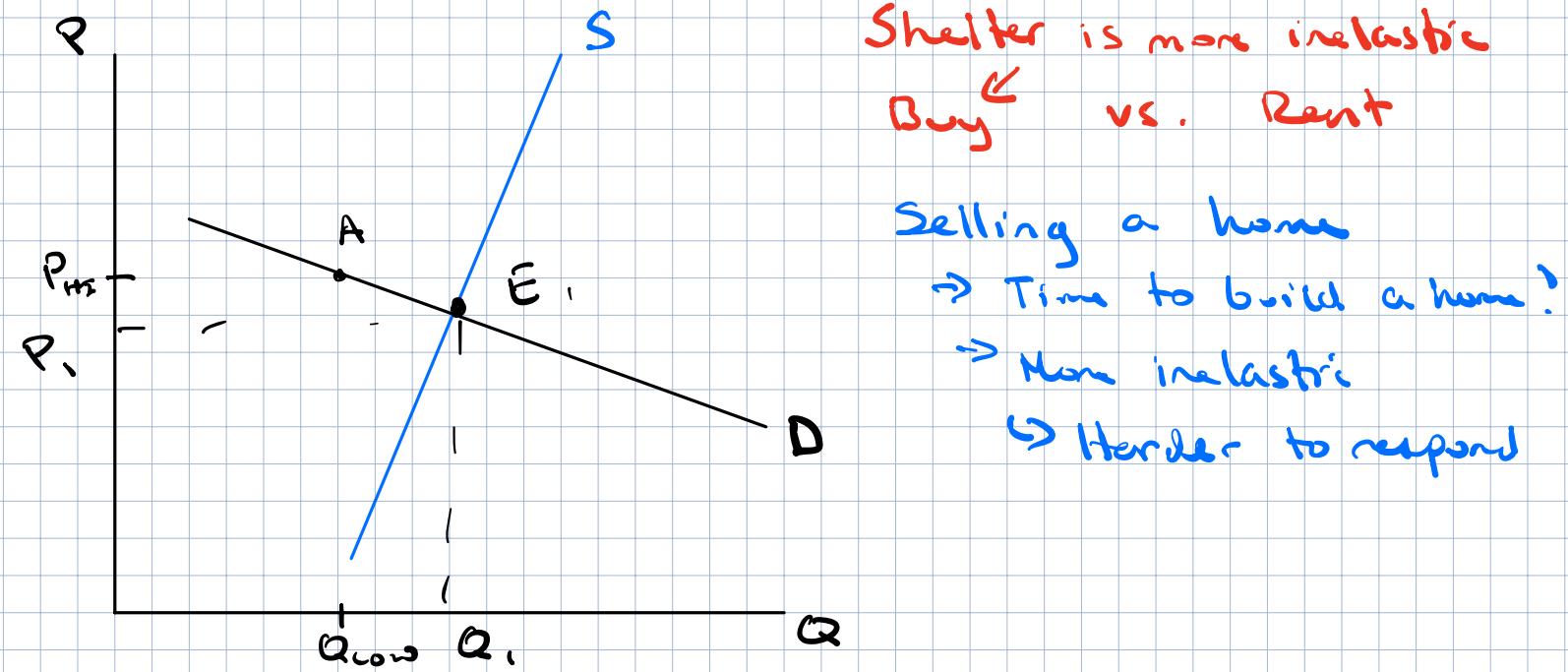
Where does supply of homes for sale come from?

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



Overlay Supply & Demand

Which of our curves is more inelastic vs. elastic?



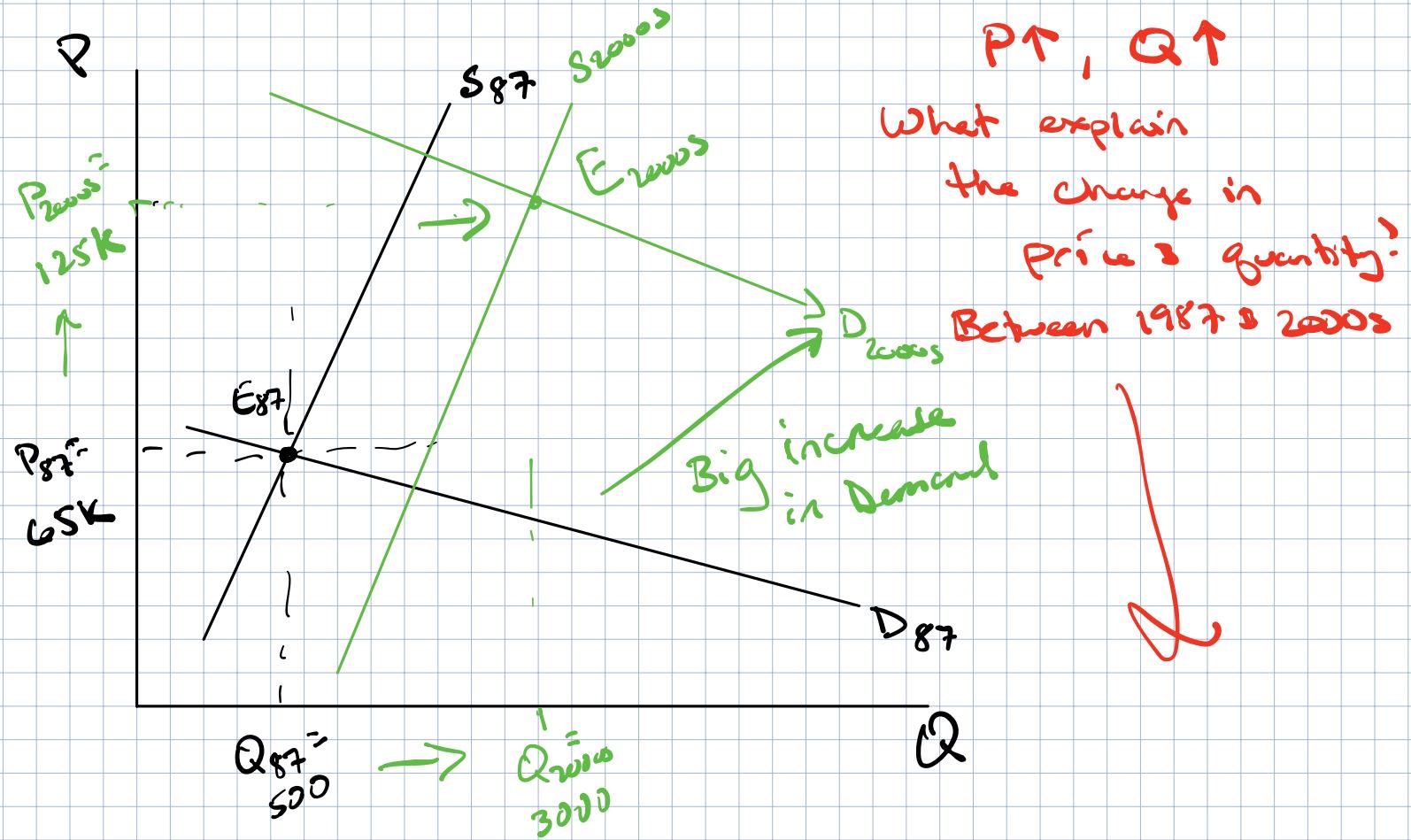
Las Vegas Housing Since 1980s

1987 Price = 65K

2000s Price = 125K

1987 Q = 500

2000s Q = 3000



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 ST

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

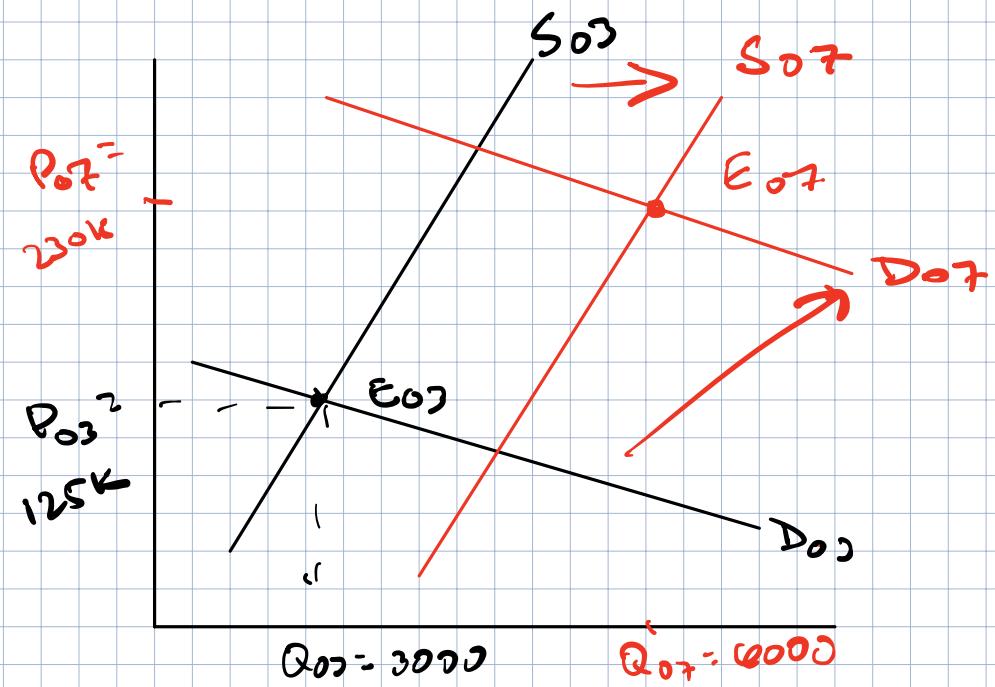
Speculation rises:

Buying an asset solely for reselling purposes

Model 2003 \rightarrow 2007 Housing Market

Price₂₀₀₃ = 125K , Q₂₀₀₃ = 3000

Price₂₀₀₇ = 230K , Q₂₀₀₇ = 6000



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

