



Module:
Microeconomics

Lecturer:
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Microeconomics

Tutorial 2 - Supply & Demand Exercises The Market for Housing (Private)

Tutorial Questions

1. Why might a government intervene in this market?
2. What would be the effect of an increase in grants to homebuyers?
3. What would be the effect of a reduction in building workers' wages?
4. What would be the effect of a more favourable tax treatment of builders' profits?
5. What would be the effect of tax relief on rented accommodation?
6. What would be the effect of a ceiling on house prices?
7. What would be the effect of an increase in land zoned for housing?

Why might a government intervene in this market?

- Government sets the ground rules for markets to operate (Property Rights & Contract Enforcement)
- Where the basic structures don't work, we have what are called market failures
- The main market failures are: failure of competition, externalities, informational asymmetry, incomplete markets, public goods

Why might a government intervene in this market?

- Housing exhibits **severe** market failure in the following areas:
- Externalities
 - Planning
 - Services
 - Water, electricity, roads, schools, hospitals, etc.
- Informational Asymmetry
 - Quality
- Failure of Competition
- Equity (not strictly a market failure)

What determines demand/supply?

- The quantity **demand**ed of a good (Q_A^D) is determined by;
 - The (own) price of the good (P_A) (**Movement**)
 - The price of other goods (P_{B-Z}) (**Shift**)
 - Income (Y) (**Shift**)
 - Tastes (T) (**Shift**)
 - Expectations (E) (**Shift**)

What determines demand/supply?

- The quantity **supplied** of a good (Q_A^S) is determined by;
 - The (own) price of the good (P_A) (**Movement**)
 - The price of other goods (P_{B-Z}) (**Shift**)
 - Costs (C) (**Shift**)
 - Technology (T) (**Shift**)
 - Expectations (E) (**Shift**)

Using Demand/Supply Model: Procedure

- Does the change involve Supply or Demand (or both)
- Which of the variables does it affect?
- If it affects (own) price then it is a **movement** along the curve)
- If it affects any other variable then it is a **shift** in the curve
- Finally, does the curve shift in or out

What would be the effect of an increase in grants to homebuyers?

STEP 3:

The shift causes price to rise and quantity to rise. (Producer is better off)

EVENT: Government increases the 1st time buyers grant

STEP 1:

Does this effect supply or demand?

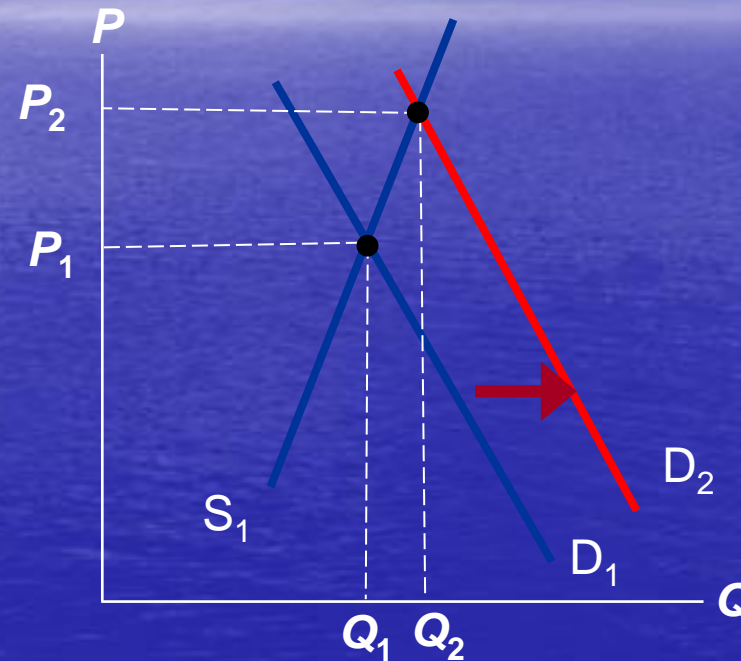
Answer: **Demand**

Which variable does it affect? Answer:

Income (Y)

Is it a shift or movement? Answer:

Shift



STEP 2:

Does the demand curve shift left/right?

Answer: **Demand curve** shifts right (Because the event increases income, making consumers demand more at any given price.)

What would be the effect of a reduction in building workers' wages?

EVENT: Builders' wages fall

STEP 3:

The shift causes price to fall and quantity to rise.

STEP 1:

Does this effect supply or demand?

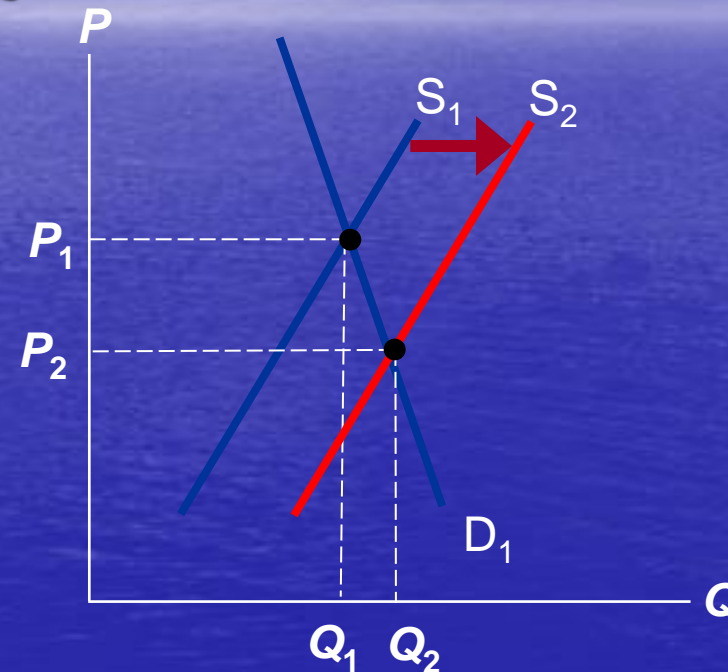
Answer: **Supply**

Which variable does it affect? Answer:

Costs (C)

Is it a shift or movement? Answer:

Shift



STEP 2:

Does the supply curve shift left/right?

Answer: **Supply curve** shifts right (Because the event reduces cost, making production more profitable at any given price.

What would be the effect of a more favourable tax treatment of builders' profits?

STEP 3:

The shift causes price to fall and quantity to rise.

EVENT: Builders' receive favourable treatment of their profits

STEP 1:

Does this effect supply or demand?

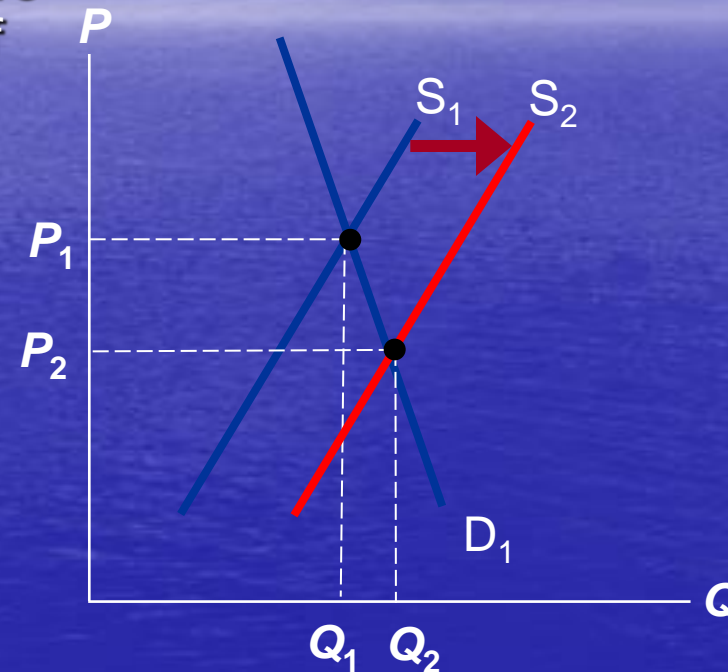
Answer: **Supply**

Which variable does it affect? Answer:

Costs (C)

Is it a shift or movement? Answer:

Shift



STEP 2:

Does the supply curve shift left/right?

Answer: **Supply curve** shifts right (Because the event reduces cost, making production more profitable at any given price.)

What would be the effect of tax relief to tenants on rented accommodation?

EVENT: Tenants receive favourable tax relief

STEP 1:

Does this effect supply or demand?

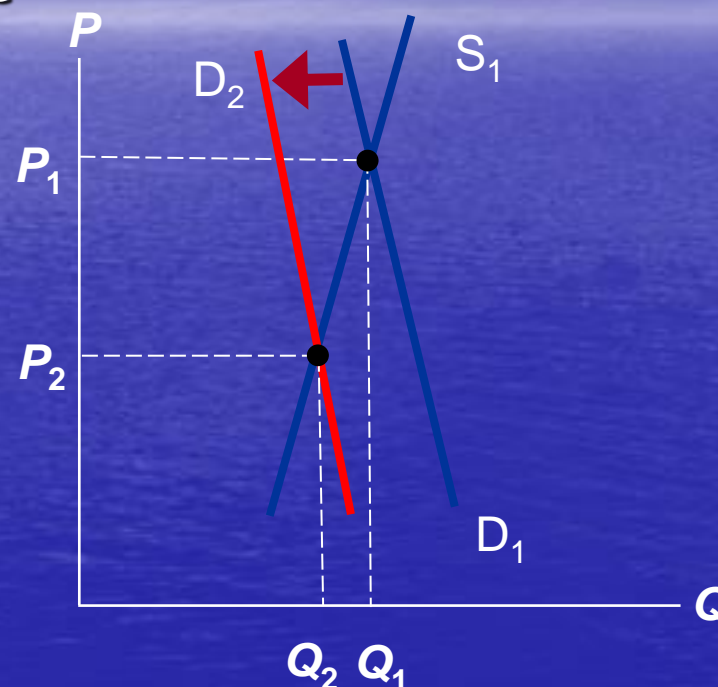
Answer: **demand**

Which variable does it affect? Answer:

Price of other goods (P_{B-Z})

Is it a shift or movement? Answer:

Shift



STEP 3:

The shift causes price to fall and quantity to fall

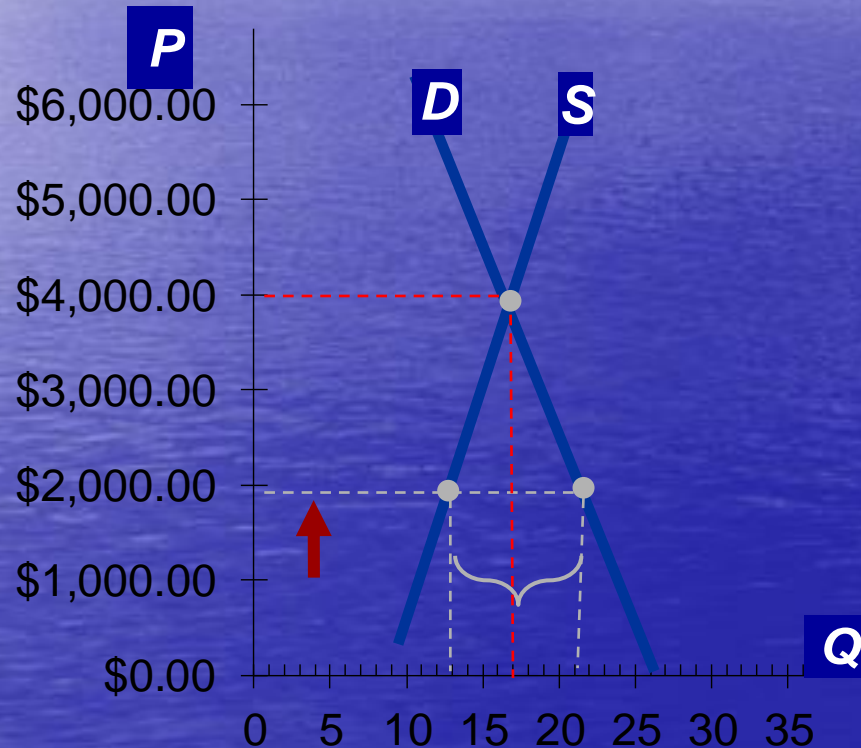
STEP 2:

Does the demand curve shift left/right?

Answer: **Demand curve** shifts left

(Because the event reduces the price of a substitute reducing demand of private housing.)

What would be the effect of a ceiling on house prices?



Queue

A price ceiling is a legal maximum price at which the good can be sold.

This affects the price of the good. This means a movement along the curves

A price ceiling will lead to excess demand (in this case of 8)

What would be the effect of an increase in land zoned for housing?

STEP 3:

The shift causes price to fall and quantity to rise.

EVENT: An increase in the amount of land zoned for housing

STEP 1:

Does this effect supply or demand?

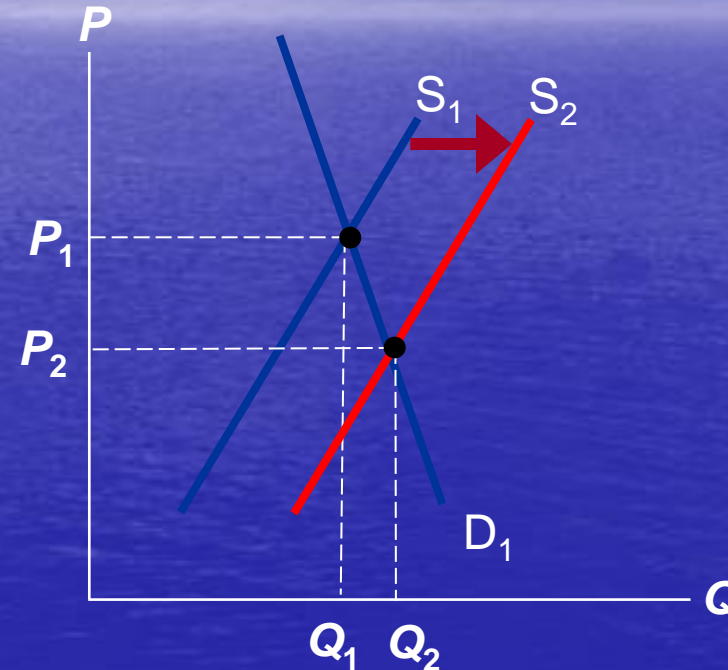
Answer: **Supply**

Which variable does it affect? Answer:

Costs (C)

Is it a shift or movement? Answer:

Shift



STEP 2:

Does the supply curve shift left/right?

Answer: **Supply curve** shifts right (Because the event reduces cost, making production more profitable at any given price.)



Thank You