***Economics assignment***

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***Answer 1***

1. The views of Cameron are that the prices of the housing are too high in the place where they are living in fact, he said that that people are afraid of mortgage over a longer period of time. The other person Ross has argued that although people are able to buy houses by getting loans but when they repay the loans, they have to pay back a considerable amount of money more than what was actually borrowed. The argument of Ross is more appropriate.
2. The interest rates have risen which makes the mortgage expensive and borrowers have to pay back a considerable higher amount of money than they borrowed. The second reason is that the prices of all the things have risen and this has made the housing more expensive.
3. One is mortgage where the person will pay certain sum of money every week so that the whole sum of money is paid over a longer period of time. The second strategy is to rent out a facility and eventually buy it over a period of time.

***Answer 2***

Both the variables considered have shown increasing trends over the passage of time. For a certain period of time, the variables have increased together and round about 2003, the dwelling prices have started to bulge out. The difference between the two variables have risen ever since the price of housing have started rising. Gradually it has become very difficult for the people in general to afford houses. This is the reason why Cameron has mentioned that the prices of houses have risen over time.

The prices of housing and rent have sown an increasing trend over a period of time. The increase in the housing prices is steeper as compared to the increase in rents. The rents have started increasing more recently as compared to the housing prices. Both persons will benefit from the trend shown in the diagram. Cameron will benefit because he will get some loan and buy the house because he is not able to save much money out of the income that he receives. Ross will also benefit because his opinion is that a person needs a huge amount of money to buy a house which is denied by the graph as the prices of housing are fluctuating up and down. The rising prices of the housing will mean that the demand for house ownership will fall.

***Answer 3***

The elasticity is referred to the responsiveness of one variable to the change in another variable (Ag decision maker, 2007). Elasticity of demand and supply will measure the responsiveness of change in demand and supply to the respective change in price. The difference between the elasticity of demand and elasticity of supply is that the elasticity of supply is always positive showing a positive relationship between price and quantity supplied. The elasticity of demand on the other hand shows a negative sign showing a negative relationship between demand and price of a product. The figure of 0.3 to 0.5 shows that any change in prices of housing will result in a 30 to 50% change in supply of dwelling. On the other hand, the figure of -0.6 shows that a change in price of housing will bring a 60% change in the demand for housing in the country. Both demand and supply are shown to be inelastic in case of housing. If the responsiveness of the demand is more as compared to the change in prices, the demand is said to be price elastic. The availability of the substitutes is the main determinant of the elasticity.

***The demand side factor is the number of people migrating in the country***

When there are more people migrating in the country, the demand for housing will increase. This will make the demand more inelastic towards the price. In other words, more migrants will mean that people will have to occupy the houses available at the prevailing prices. The migration will mean that there will be more people who will desperately need houses to live in. The more urgent some need is, the more inelastic is its demand. This is because the urgency of the need will mean that the customers will not care for the price, they will pay whatever the prevailing price is.

***Planning rules to make it easier to develop medium density housing***

The government will provide the housing in the inner circles of the city. This action will make the supply of houses relatively less inelastic as there will be a possibility that the constructors can increase the number of houses built as reaction to the change in price. This aspect means that the supply will be relatively less inelastic with the relaxation in the regulations. The government will also relax the various regulations that did not allow the development of housing societies. This will increase the supply of the houses across the country.

**Demand and Supply Diagram**

D S

Quantity Demanded and Supplied

Price

P0

d

s

Q0 Q1

In the above diagram, the price is shown on the Y axis and quantities demanded and supplied have been shown on the X axis. The initial supply curve is labeled as S which is an inelastic supply curve because it is drawn in such a way that it will touch the X axis when extended toward the origin. The demand curve is also inelastic because it is steeper in appearance. A steeper curve will mean that there will be less change in both quantities demanded and supplied as a result of the change in price. The original quantities are depicted by Q0 in the above diagram and the price is shown by p0.  The demand side factor chosen is the migration of the people from other countries to Australia. This aspect will increase the demand of housing and the demand curve will be shifted to the right side. The supply side factor chosen is the relaxation of the rules and regulations regarding the housing by the government. We have assumed that the government has relaxed several regulations on the housing segment. This will make the development of new housing facility easier and will increase the supply shifting the supply to the right side. The new supply curve is depicted by s. We can see in the above diagram that the increase in the demand and supply has affected the quantity only and the price has remained almost the same after the increase in supply and demand. This may have happened because we have changed both the demand and supply in almost the same amounts.

# References

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