

Economics

A-level transition work
project one



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Year 12 economics covers two areas

Macroeconomics

Focuses on the "big picture" whole economy concepts you will, most likely, have heard of on the news or elsewhere.

Examples: unemployment, interest rates, GDP and growth, aggregate demand, and inflation.

Subject of "project two"

Microeconomics

Focuses on the small scale; the relationships between and decisions made by individuals, households, firms and industries.

Examples: demand and supply, factors influencing price, elasticities, and externalities.

Subject of "project one"



Task: To investigate the UK housing market

Areas to consider:

1. What choices do consumers have when it comes to housing?
2. What determines the price of a house (what factors influence house prices)?
3. Are there regional variations in house prices and, if so, what are the reasons for this?
4. Investigate issues relating to supply within the UK housing market.

Questions to help get you thinking

On the following slides you will find a series of prompt questions designed to help get you thinking. Hopefully, they break down this task in to more manageable "chunks".

The more challenging questions are highlighted in yellow – please feel free to attempt them if you are able.

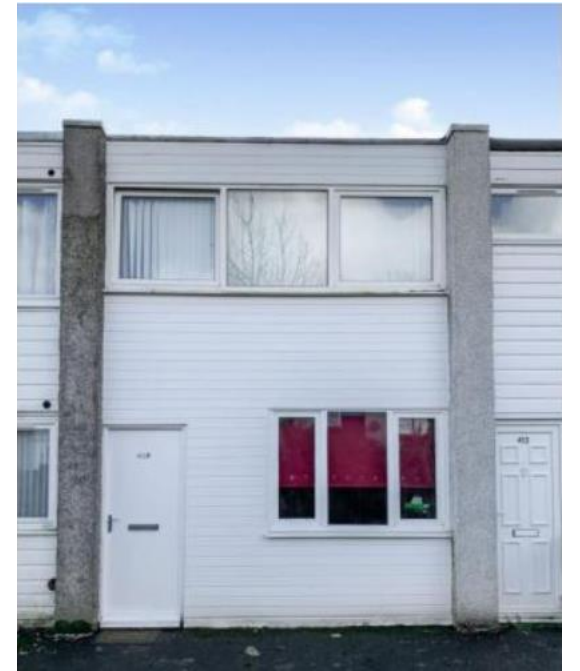


What's going on?



1 bedroom flat in SW10,
London up for £365,000
(16th May 2020)

Why is this 1-bedroom flat in London
being offered for sale at a price in excess
of ten times the price of this three-
bedroom property in Glasgow?



3 bedroom property in
Glasgow on sale for £35,000
(16th May 2020)

Questions to help get you thinking

Mortgages

- What is a mortgage?
- What is collateral?
- Why might mortgages have a lower rate of interest than a personal loan?



Interest rates

- What is a fixed rate mortgage?
- What is a variable rate mortgage? (What happens if the base rate rises?)
- Can you find examples of "fixed" and "variable" interest rates charged in the UK?
- If a friend of yours was planning on obtaining a mortgage, which would you recommend a fixed or variable rate, why?

What is the difference between renting and buying?

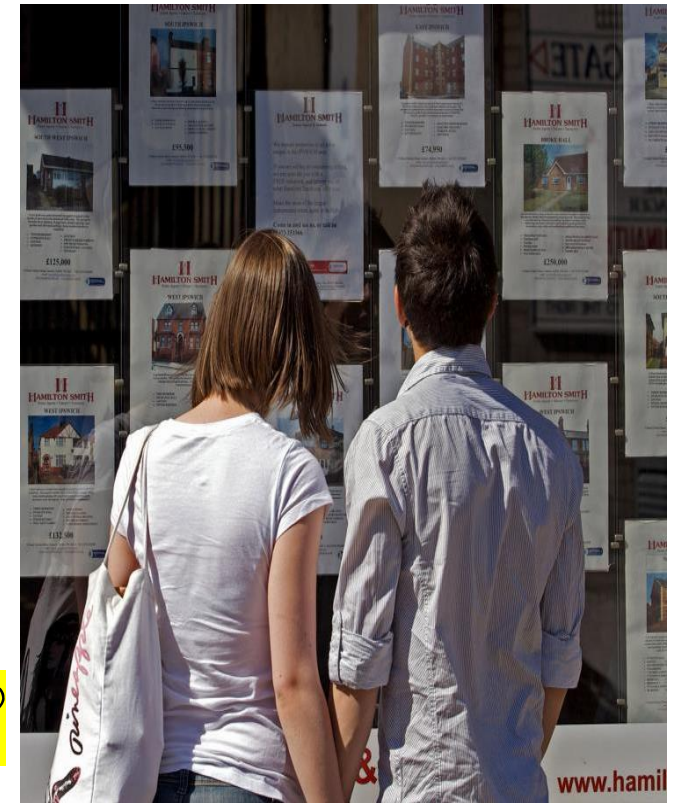
Questions to help get you thinking

Deposits (and mortgages)

- What is a deposit?
- Why might a lender demand a deposit?
- Can you find out what percentage a typical deposit is?

First time buyers and the housing market

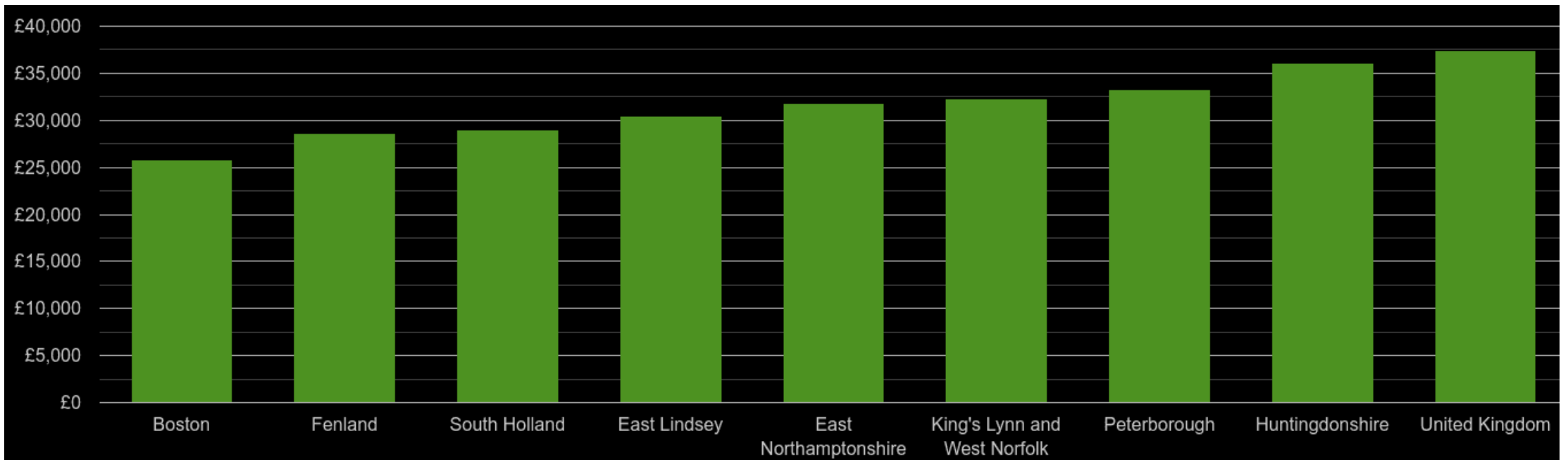
- What is a first time buyer?
- Can you explain why first time buyers are important to the housing market?
- Why is the deposit requirement a real challenge for most first time buyers?



Questions to help get you thinking

Wages and the housing market

- How might average wages influence demand (prices) in the housing market?
- Can you use earnings data to help explain why housing is more expensive in London than Peterborough?



Questions to help get you thinking

Valuing a house (why a house might be worth more than the materials used to make it).

- What features do buyers look for when purchasing a house?
- How significant do you think "location" is in determining price?

Rising house values

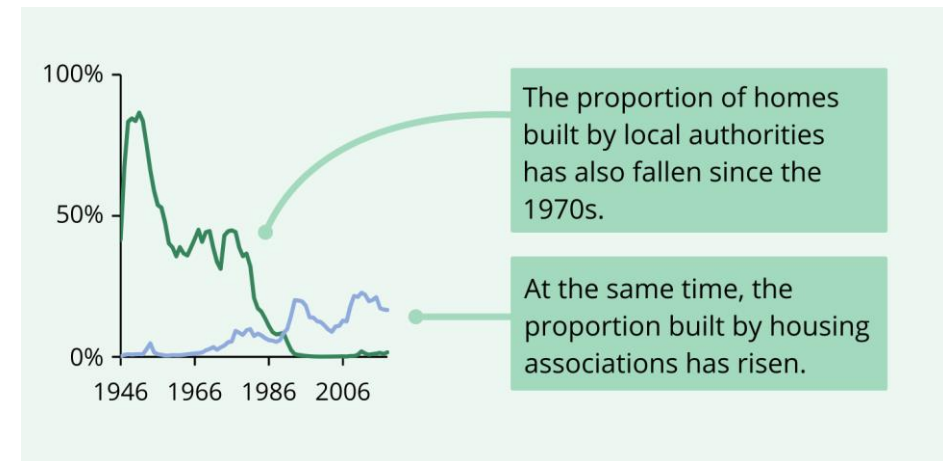
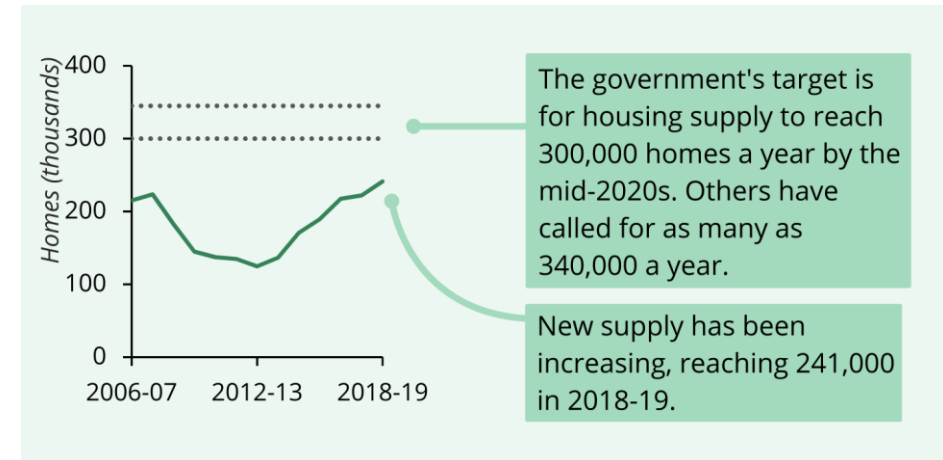
- What impact might high or increasing house prices have upon supply?
- If the most expensive asset you own rises in value by 15% how might this affect your spending behaviour?



Questions to help get you thinking

Housing supply

- How many houses are built per year in the UK?
- Do you think a sufficient number of houses is being built? - Give reasons for your answer.
- What is the average age of a brick layer in the UK?
- Should the construction industry be concerned?
- How long does it take to get planning permission for house builders in the UK?
- What effect, if any, might the length of time required to get planning permission have on the supply of housing?



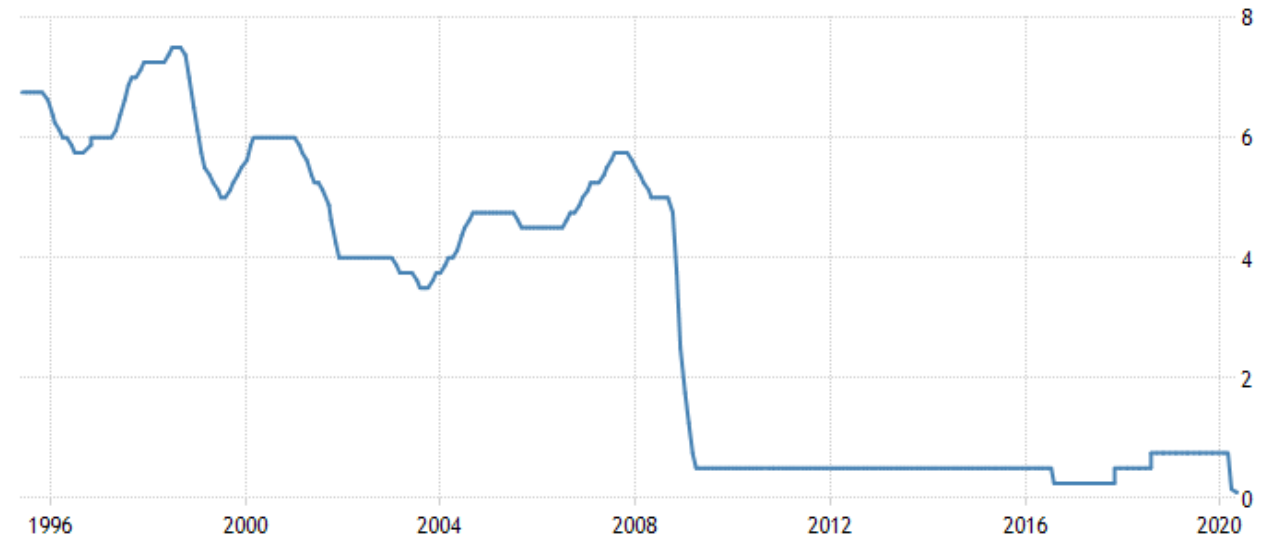
Questions to help get you thinking

Interest rates

- What is the "base-rate" (base rate of interest)?
- What impact might a change in the "base rate" (interest rates) have on house buyers?

Buy-to-let market

- What is the buy-to-let market?
- How has the development of the buy-to-let market affected the supply of housing in the UK?



SOURCE: TRADINGECONOMICS.COM | BANK OF ENGLAND

Some suggested sources / reading

www.constructionproducts.org.uk/news-media-events/blog/2017/september/the-underlying-challenges-of-the-construction-industry/

https://www.basildonstandard.co.uk/jobs/jobs_news/11630489.want-to-earn-100k-look-at-bricklaying/

<https://www.telegraph.co.uk/property/news/uk-has-backlog-423000-new-homes-planning-permission-waiting/>

<https://commonslibrary.parliament.uk/research-briefings/cbp-7671/>

<https://www.economicshelp.org/blog/7243/housing/housing-supply-in-uk/>

Some suggested sources / reading

<https://www.economicshelp.org/blog/5568/housing/uk-house-price-affordability/>

<https://www.teachersbs.co.uk/docs/default-source/guides/affect-house-value.pdf?status=Temp&sfvrsn=0.3442236614267422>

<https://www.economicshelp.org/blog/15390/housing/factors-affecting-supply-and-demand-of-housing/>

<https://www.bankrate.com/uk/mortgages/bank-of-england-base-rate/>

<https://tradingeconomics.com/united-kingdom/interest-rate>

Monthly repayments

If you can, click on the link below.

If you were looking to borrow £250,000, how much would your monthly repayments be at a rate of 4% interest?

What would happen to those monthly payments if the interest rate rose to 10%?

What difference would this make in total over 12 months?

<http://www.bbc.co.uk/homes/property/mortgagecalculator.shtml>

Mortgage calculator

A quick and easy way to calculate your monthly mortgage payments. Simply enter the amount you wish to borrow, the term over which you intend to pay it off and the interest rate. Then hit the 'Calculate' button.



In this article

▶ Calculate your repayments

▶ Your results

Calculate your repayments

Mortgage required
(omit commas)

£

Repayment period
(omit commas)

years

Interest rate
(enter 10% as 10)

%



Calculate

Monthly repayment

£

(Interest only)

£

But be careful, at 12% it will be:

£

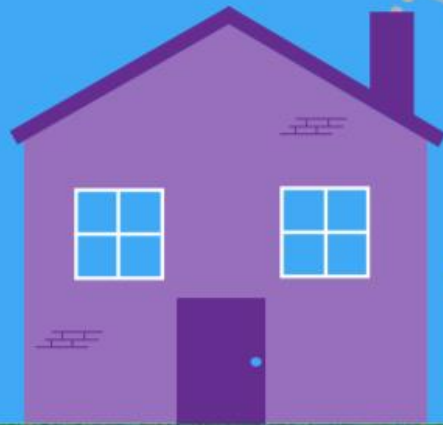
(Interest only)

£

Clear

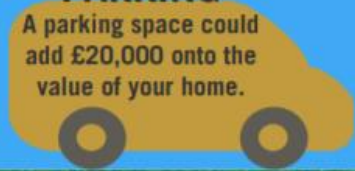
POLLUTION

It's believed that poor air quality can knock up to 15% off house prices.



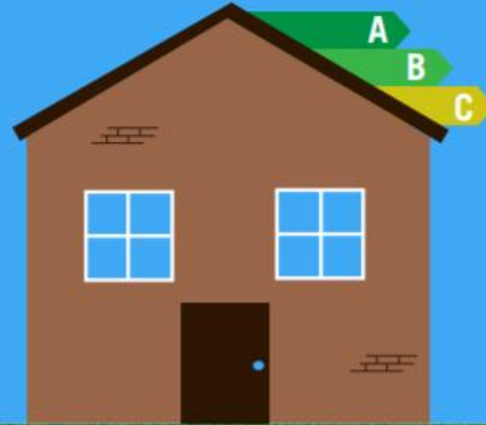
PARKING

A parking space could add £20,000 onto the value of your home.



ENERGY EFFICIENCY

Studies have found that there was a positive association between price per square metre and energy performance rating.



NEIGHBOURS

Nuisance neighbours can bring the value of the houses down by around 8% or just over £17,000.



What could affect the price of your home?

Schools



Parents in England are prepared to pay, on average, £52,000 more to buy a home that secures a place at an outstanding state primary school.

Crime



43% of Brits would not buy a home in an area with a high crime rate. 36% said they would but they would expect to pay less for a property in such an area.

Pets



Pet smells and odours can be a turn-off for buyers. Non-cat owners can be anxious about moving in with cat allergies – and worried that cats may return to the property.

Local Amenities



Almost 1/4 of homebuyers want to have a local pub, considering it essential when buying a property. Homes close to supermarkets command a premium of just over £21,000.

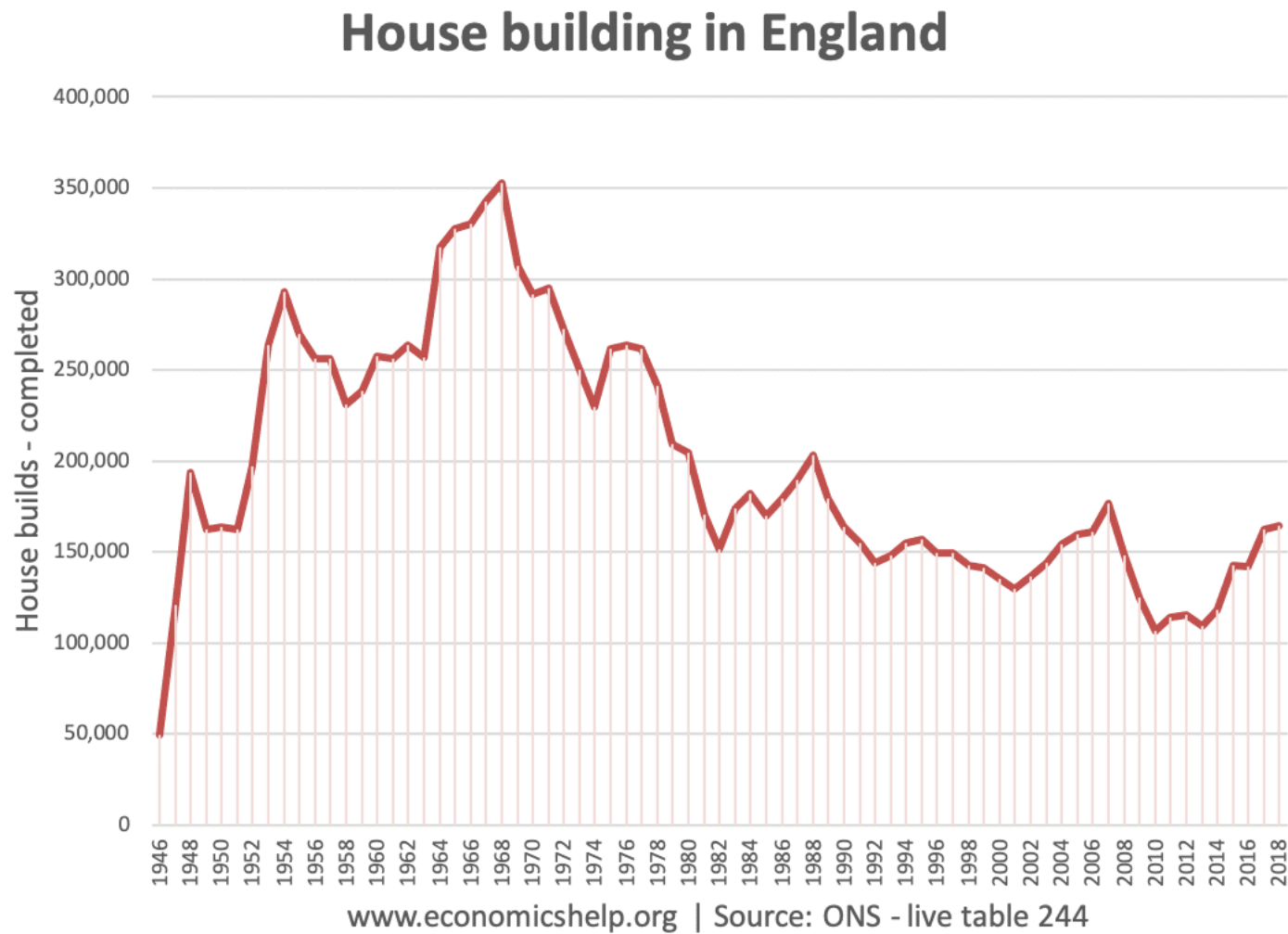
Broadband



Average house buyers would spend £6,500 extra for fast broadband speeds and would be discouraged from purchasing a house if the broadband connectivity was poor or slow.

House-building

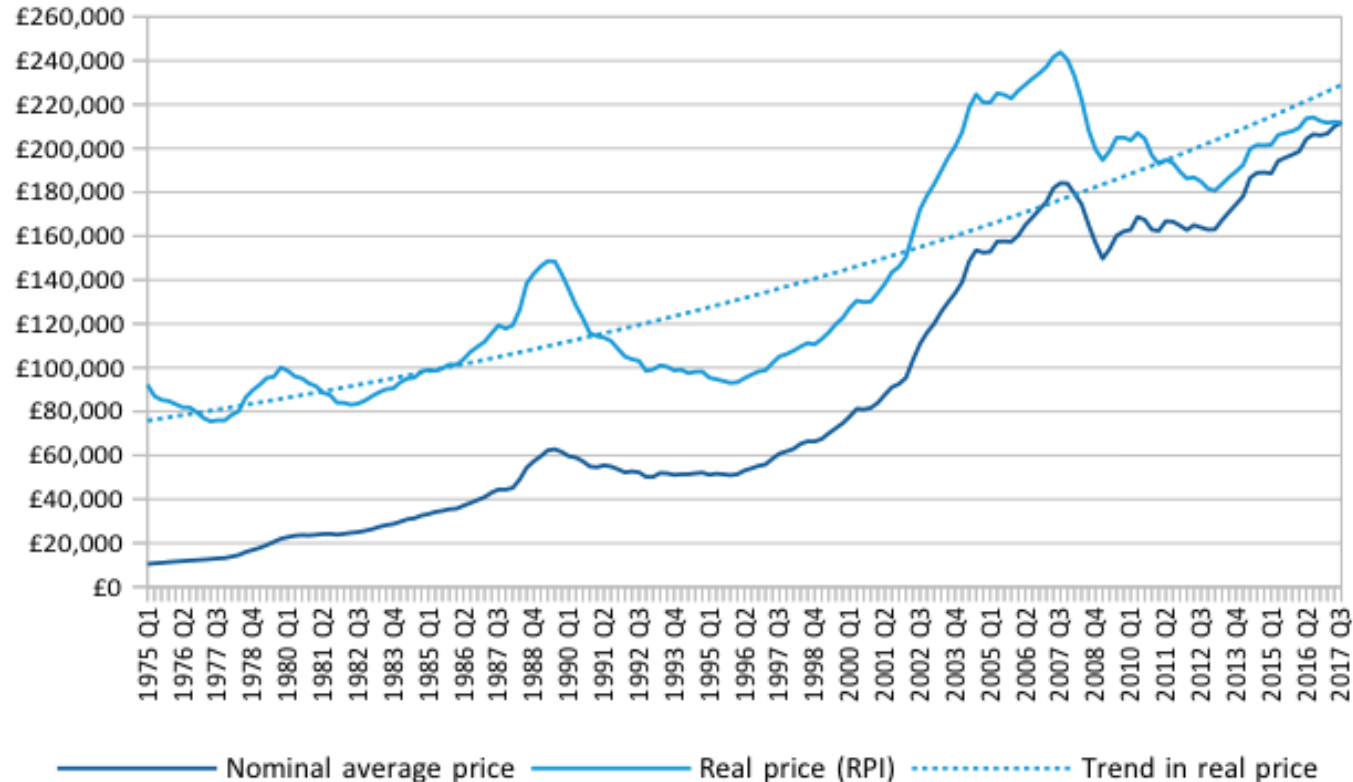
Why were we able to build more houses per year in the 1950s and 60s than in the 90s and the last decade?



UK House price data

UK house prices: nominal, real, and exponential trend, 1975-2017

Sources: ONS, All UK Properties; nationwide.co.uk/hpi

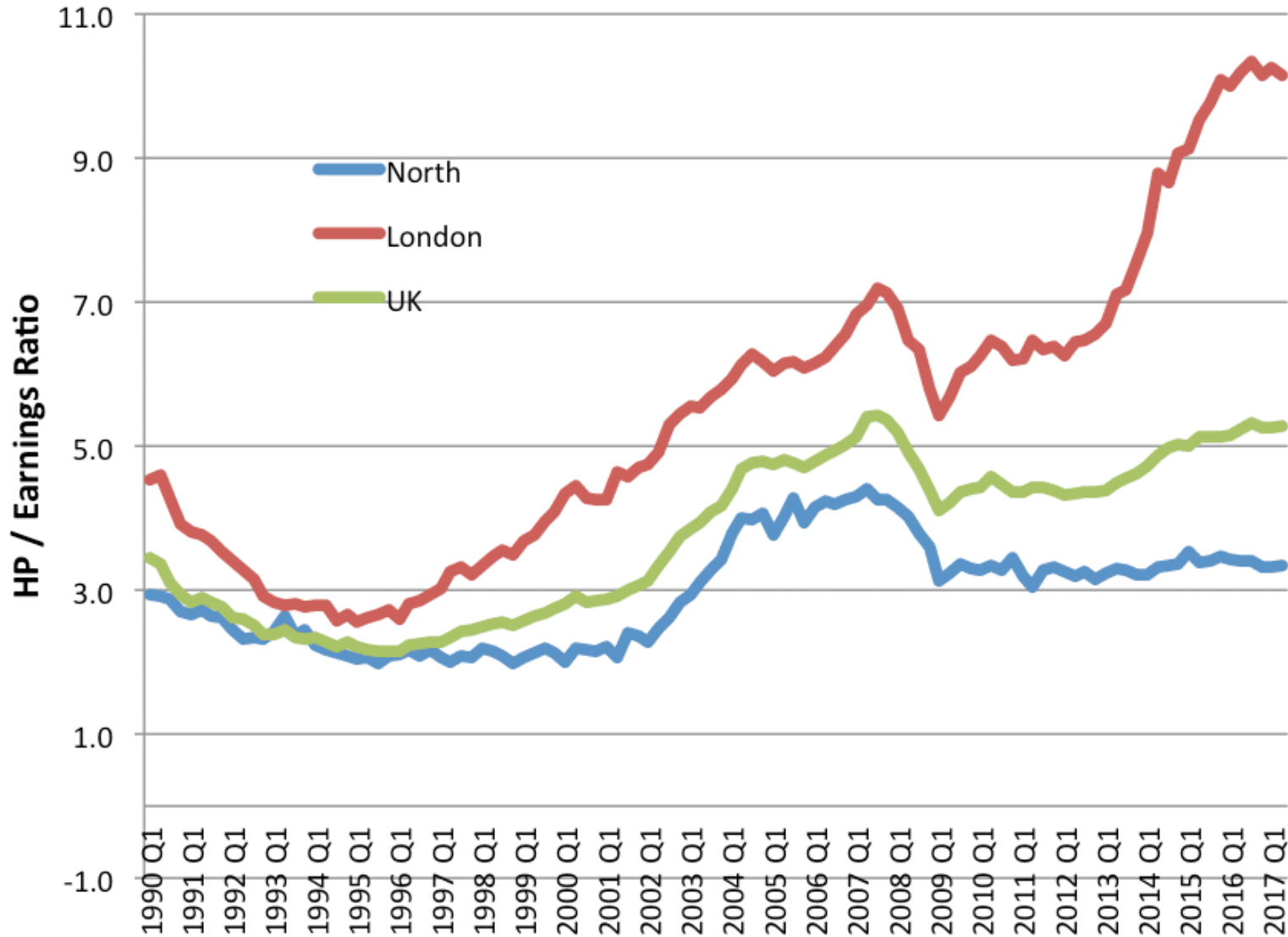


What has happened to house prices over time?

What do you think may have caused dips in the early 1980s and the early/mid-1990s?

What do these data suggest about investing in buying a house?

FTB House Price to Earnings



www.economicshelp.org | Source: Nationwide Q2 2017

House price earnings

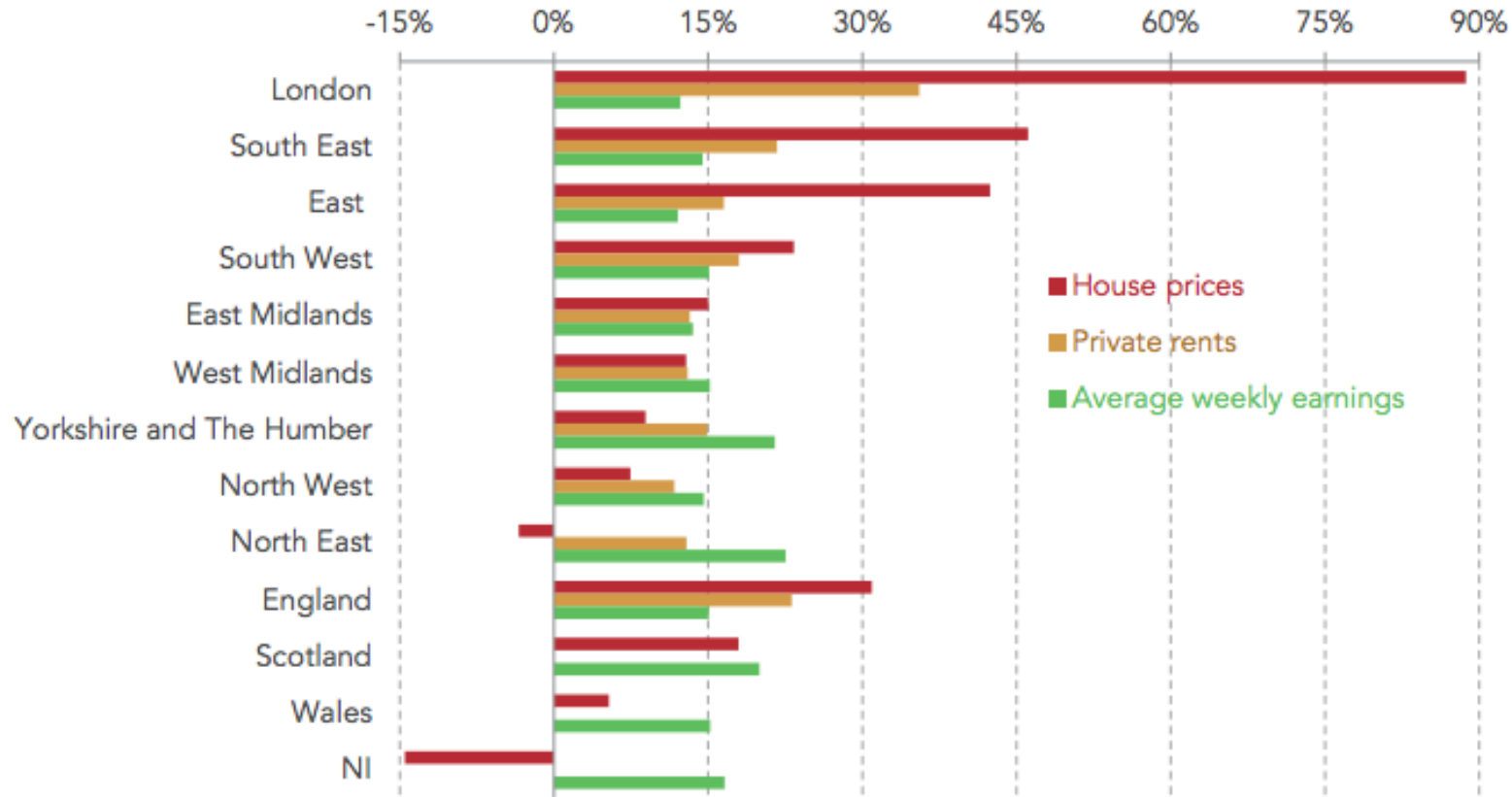
What does this ratio mean?

Why do you think it is so much higher in London than the rest of the UK?

<https://www.economicshelp.org/blog/5568/housing/uk-house-price-affordability/>

Figure 17: House price and rental growth has outpaced earnings growth in the south of England

Nominal growth, April 2006 to April 2016



Source: RF analysis of ONS, ASHE, House Price Index and Index of private housing rental prices

House and rent data

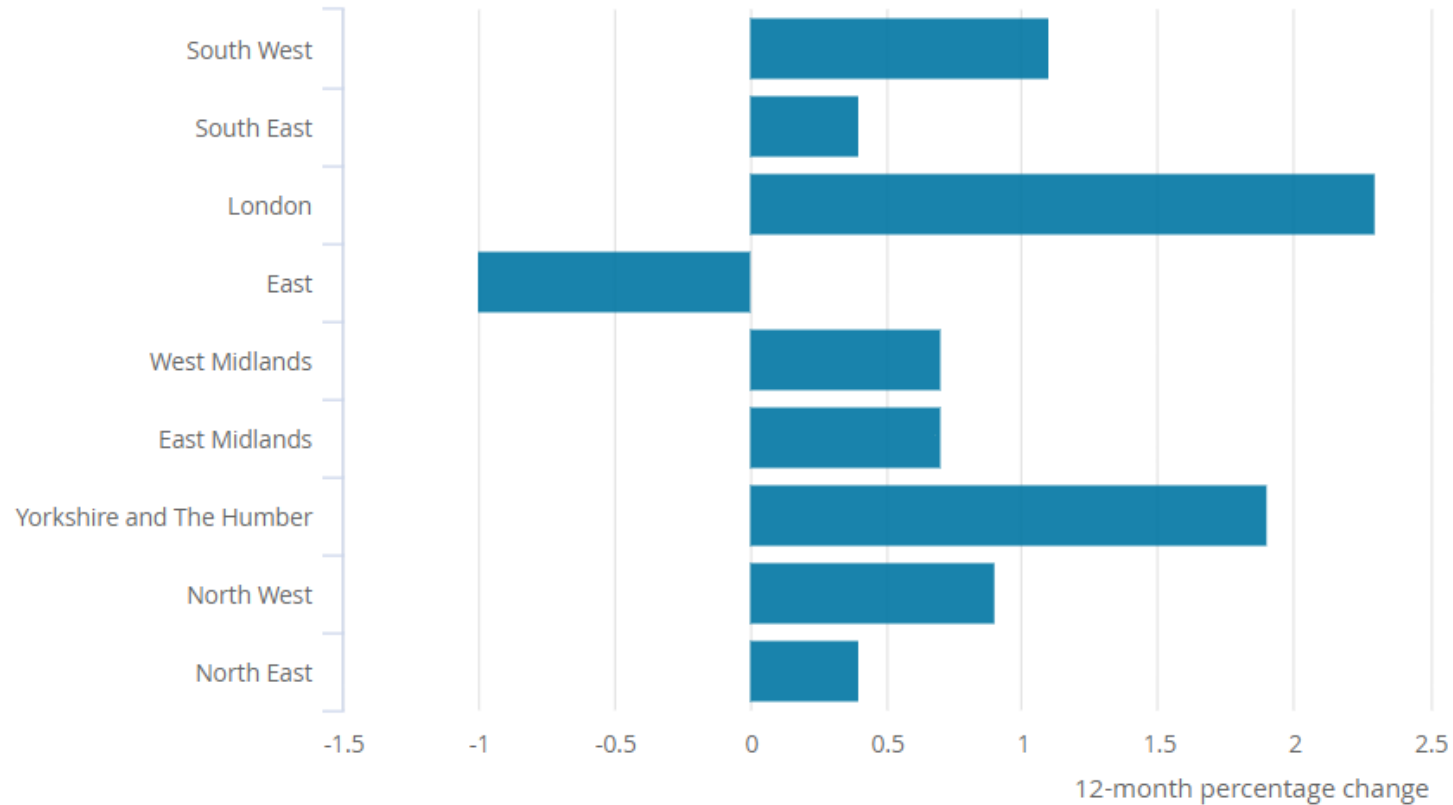
What has happened to prices?

Why is this change inconsistent across different regions?

What do you notice about the relationship between prices, rents and average earnings in London and the West Midlands?

Figure 4: The strongest regional growth was in London

All dwellings annual house price rates of change, by English region, year to February 2020



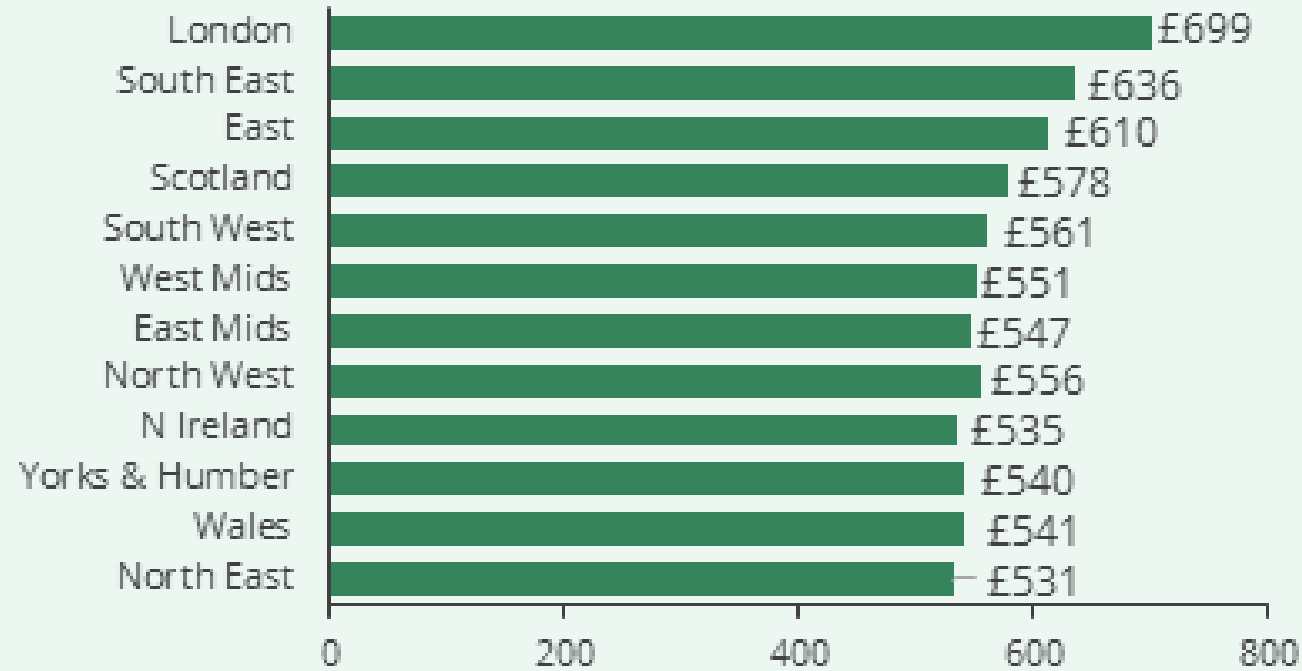
Source: HM Land Registry and Office for National Statistics – UK House Price Index

Regional data

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepricericeindex/february2020>

Median weekly pay by region of residence

April 2019, full-time employees



Source: ONS, Annual Survey of Hours and Earnings

Average earnings

What do you notice about median weekly pay rates across the UK?

What relationship might there be between these data and housing prices?

<https://commonslibrary.parliament.uk/research-briefings/cbp-8456/>

First time buyers

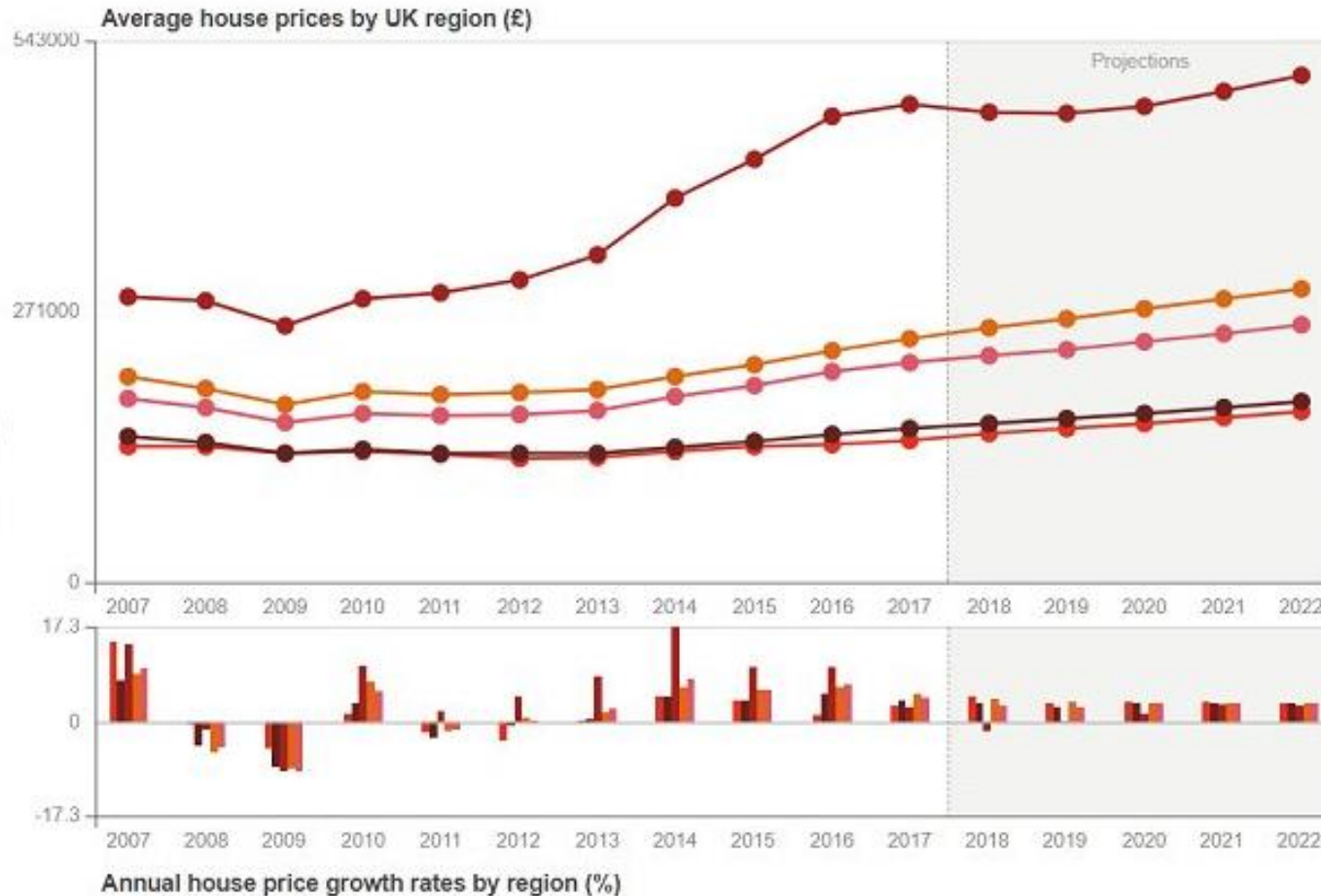
- 1 London, £84,000
- 2 Cambridge, £72,000
- 3 Oxford, £68,800
- 4 Bournemouth, £62,300
- 5 Bristol, £59,500
- 6 Portsmouth, £50,700
- 7 Edinburgh, £48,700
- 8 Southampton, £48,500
- 9 Cardiff, £44,600
- 10 Leicester, £38,000
- 11 Manchester £36,200
- 12 Leeds, £35,500
- 13 Birmingham, £35,200
- 14 Aberdeen, £33,700
- 15 Nottingham, £32,900



How much first-time buyers need to be earning in different parts of the UK.

<https://www.thisismoney.co.uk/money/mortgages/home/article-7187909/Zoopla-reveals-average-income-needed-step-housing-ladder.html>

Projections from PWC



- ### Cumulative price increase 2017-22
- £29,000 London
 - £50,000 South West
 - £38,000 UK average
 - £27,000 Yorkshire & the Humber
 - £29,000 Scotland

FIXED VS. VARIABLE INTEREST RATES

FIXED INTEREST RATE

Your interest rate, and therefore your repayments, won't change for a specified period.

Peace of mind that comes from knowing your repayments aren't going to change for a set period of time.

You could lock in a great rate and watch variable rates increase.

If variable rates drop below your fixed rate you can't swap until the end of your term or you pay significant 'break costs'.

Extra repayments are capped generally around \$10,000 per year

Can be expensive to 'break' if you want to change or move your mortgage

VARIABLE INTEREST RATE

Your interest rate can change; and if it does, your repayments might too.

Usually more flexible. Able to make unlimited extra repayments to pay off your loan early and/or redraw additional funds

You can easily switch mortgage providers

You directly benefit when rates decrease

Able to be linked to an 'offset account'

While you benefit when the rates go down, you're also exposed to rate increases which can create uncertainty in your budgeting.



<https://www.moneysavingexpert.com/mortgages/fixed-discount-mortgage-guide/>

The report you need to produce

Your report should be a maximum of three sides and include the following sections:

1. A brief introduction explaining the different types of property that are available to people looking for somewhere to live.
2. An explanation of the different factors that can affect house prices - you may want to suggest which is/are the most significant.
3. An explanation as to why there are regional differences in house prices - with some supporting data.
4. A summary of any issues you may have researched as to issues relating to supply in the housing market - if you wish to mention elasticity here this would be fantastic.

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