

**Extract B: Factors affecting UK house prices**

In recent decades, with the exception of short periods around 1990 and more recently in 2008 and early in 2009, UK house prices have risen. Several factors have contributed to rising house prices. These factors include changes in population size, changes in the number of households and changes in income.

Other factors have been the ease or difficulty of borrowing money to finance house purchase and the fact that the demand for housing is determined not only by people’s need for shelter but also by people treating housing as a form of wealth.

Elasticities of demand and supply influence how these and other factors affect the price of housing. It has been estimated that, in the UK, the income elasticity of demand for houses is positive, with a value that exceeds +1.0. The estimated value of the price elasticity of supply of houses is +0.5.

**Extract C: The ‘haves’ and the ‘have-nots’ in the UK housing market**

Throughout the recent decades of generally rapidly-rising house prices in the UK, most owner-occupiers have become significantly wealthier than those who pay rent. Owner occupiers, who are people owning the houses in which they live, generally raise the finance needed to buy their houses by taking out a mortgage, which is a type of loan used to purchase property. If house prices rise rapidly, owner-occupiers’ wealth goes up in value but their mortgage debt does not.

People who rent houses do not benefit from this growth in personal wealth. In this case, it is the landlords owning the rented properties who enjoy the wealth gain. By and large, landlords and owner-occupiers are better off than those who live in rented accommodation. Arguably, the division between the ‘haves’, who own houses, and the ‘have-nots’, who do not, has been one of the most prominent market failures in the UK housing market. Market failure has also arisen because poor housing adversely affects people’s health, and large differences in house prices can affect the mobility of labour.

Should governments intervene to try to correct the alleged market failures occurring in the UK housing market? Intervention could take several forms including subsidies, rent controls and direct government provision of housing.

Questions

1. Define the term ‘price elasticity of supply’ (**Extract B**). *(3 marks)*
2. Using **Extract A**, identify **two** significant features of the UK house price affordability indicator over the period shown. *(4 marks)*
3. With the help of an appropriate diagram, explain how **two** of the factors mentioned in **Extract B** may have caused UK house prices generally to rise in recent years. *(10 marks)*
4. “…the division between the ‘haves’, who own houses, and the ‘have-nots’, who do not, has been one of the most prominent market failures in the UK housing market” (**Extract C**). In the light of this statement, evaluate the case **for** and the case **against** government intervention in the housing market in order to correct or to reduce market failures in such a market. *(25 marks)*

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