

A-level ECONOMICS

Paper 3 Economic principles and issues

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The UK's broken housing market

Questions 31 to 33

- **Extract A:** The UK housing market
- **Extract B:** Putting a roof over our heads
- **Extract C:** Selected indicators of the affordability of buying a house
- **Extract D:** Changing UK house prices
- **Extract E:** Mending the UK's broken housing market

Extract A: The UK housing market

The housing market is a large part of the UK economy, comprising over 28 million residential dwellings. Buying a house is the largest investment that many people will make in their lifetime. Most owner occupiers finance the purchase of their house by borrowing, using a mortgage provided by a bank or building society. However, the UK housing market is changing, with fewer people owning their own homes and more people renting from private landlords or housing associations, but the number of dwellings rented from local authorities has fallen. Housing associations and local authorities provide social housing at rents that are generally below the free market level.

Source: News reports, February 2018

Extract B: Putting a roof over our heads

In 1997, the median price of a house was less than four times median earnings. Today the median price of a house is almost eight times median earnings, an all-time record. As a result, it is difficult to get onto the housing ladder, and the proportion of people living in the private rented sector has doubled since 2000.

More than 2.2 million households with below-average incomes spend a third or more of their disposable income on housing. This means they have less money to spend on other things and struggle to save the money needed for the deposit to buy a house.

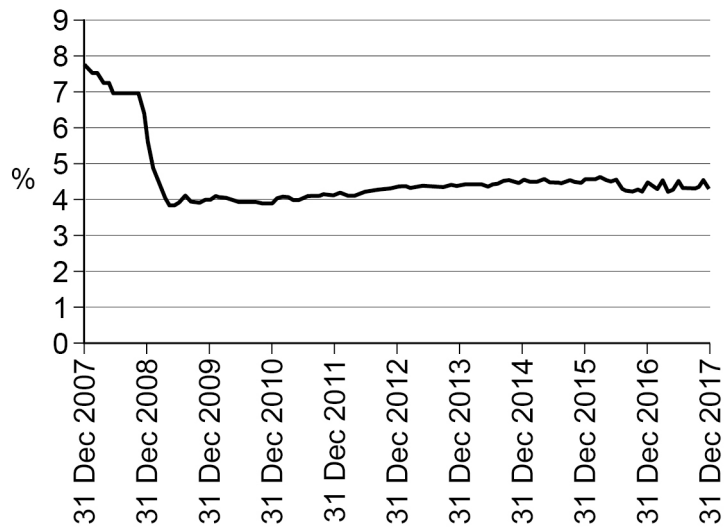
Building more homes will slow the rise in house prices and should also bring the cost of renting down. For decades, the pace of house building has been too slow. Since the 1970s, there have been on average 160 000 more new homes each year in England. The consensus is that we need more than 225 000 new homes each year to keep up with population growth and to tackle years of under-supply.

The most basic of human needs – a safe, secure home to call your own – isn't just a distant dream for millions of people, it's a dream that's moving further and further away.

Source: Government report, February 2017, Cm 9352

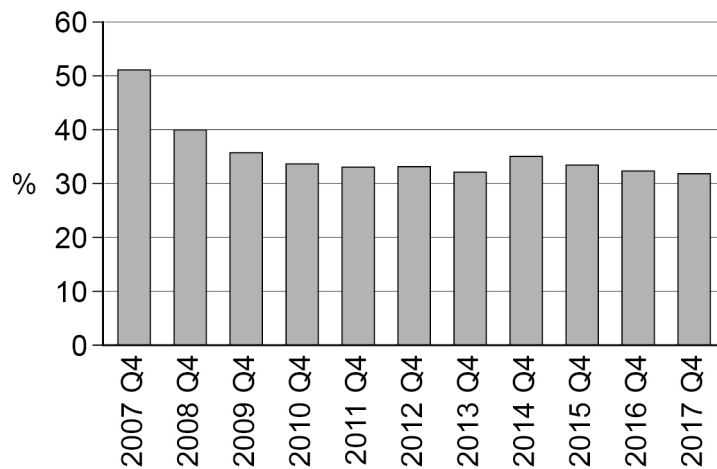
Extract C: Selected indicators of the affordability of buying a house

Figure 1 Standard variable mortgage interest rate charged to UK households, December 2007 to December 2017



Source: Bank of England, February 2018

Figure 2 Mortgage payments for first-time buyers in the UK as a percentage of mean take home pay, 2007 Quarter 4 to 2017 Quarter 4



Source: Nationwide Building Society, February 2018

Extract C continues on the next page

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Figure 3 House price to earnings ratio for first-time buyers in the UK, 2007 Quarter 4 to 2017 Quarter 4

Date	Ratio
2007 Q4	5.4:1
2012 Q4	4.3:1
2017 Q4	5.2:1

Source: Nationwide Building Society, February 2018

Figure 4 Average UK house price, average weekly earnings in nominal terms and their annual percentage changes, December 2007 to December 2017

Date	House price	House price, annual percentage change	Weekly earnings	Weekly earnings, annual percentage change
December 2007	£189 193	7.0	£425	2.9
December 2008	£160 954	-14.9	£435	2.4
December 2009	£168 082	4.4	£439	0.9
December 2010	£168 703	0.4	£449	2.2
December 2011	£167 048	-1.0	£457	1.8
December 2012	£168 843	7.7	£462	1.0
December 2013	£177 971	5.4	£468	1.4
December 2014	£191 669	7.7	£480	2.5
December 2015	£204 919	6.9	£489	1.9
December 2016	£215 500	5.2	£498	1.9
December 2017	£226 756	5.2	£512	2.8

Source: ONS, February 2018

Extract D: Changing UK house prices

The housing market is very sensitive to the economic climate and shocks to the macroeconomy. 1
 The demand for housing is affected by income, wealth, the availability and cost of credit, as well
 as households' expectations and confidence in their future economic prospects. The financial
 crisis of 2007–08 had a significant effect on the housing market. House prices fell by around
 15% between January 2008 and March 2009. Since then the UK economy has recovered, and 5
 house prices have risen. Also, planning rules restricting the supply of land for building and the
 failure to adopt innovations that reduce the cost of constructing houses have influenced the
 underlying rate of growth of house prices in the UK.

Source: News reports, February 2018

Extract E: Mending the UK's broken housing market

Problems in the housing market affect the rented sector as well as people who want to buy a home of their own. House prices and rents are higher in the UK than in many other countries. Average rents in the UK are between 40% to 50% higher than in the Netherlands, Belgium, Germany and France. This has led some to argue that rent controls should be imposed to prevent private landlords exploiting their tenants. Others have responded by stating that high rents are the market signalling that there is a shortage of supply and that rent controls will reduce the supply of properties to rent, making the problem worse.

Decent quality housing is often regarded as a merit good. A range of government policies exist to help people afford a reasonable place to live. These include the payment of Housing Benefit, or Universal Credit, to help people on low incomes pay their rent, and the Help to Buy Scheme. Such measures increase the demand for houses, but do they increase supply or just increase the cost of housing?

It is widely accepted that more houses should be built, and the Government has an ambitious target to increase housing supply by 300 000 each year by the mid-2020s. The November 2017 budget included total support for housing of £44 billion over a five-year period. Some believe that this is insufficient to support the private sector, housing associations and local authorities in ensuring that the supply of houses increases sufficiently to provide people with a suitable place to live. In 2016–17, total public-sector expenditure on services amounted to £711.5 billion, of which £10.4 billion was spent on 'Housing and community affairs' compared to £144.3 billion on 'Health' and £37.1 billion on 'Defence'. The budget deficit was £46 billion. If the Government spends more on housing, how will that affect the macroeconomy?

It is not all about governments spending more money; planning laws affect the amount of land available for development. Such restrictions raise the price of land for building, which increases property prices, allowing developers and landlords to make speculative gains. If local authorities released more land for housing and eased restrictions on where houses can be built, some believe that the housing shortage could be eliminated without an increase in government spending, but at what cost to the environment?

Source: News reports, February 2018

END OF EXTRACTS

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