

# The non price determinant factors economics essay



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In this assignment I am going to explain the economic concept of Owner occupied Residential. The assignment generally includes examples and graphical analyses to demonstrate the issues that will affect the owner occupied residential market.

The housing market of any country or places is determined by a range of demand and supply factors. There is always a demand for housing; the main reason for that is mainly due to population growth, the life expectancy rates improved, and also the incline of one person household. Furthermore, as the demand is high consequently there also will be a supply.

Owner occupied sector means that the householder who ultimately live and own at the same property. The property types can differentiate as house, flats, apartment, bungalows and etc.

### **The non- price determinant factors affecting the supply to change:**

Construction Cost

Government Legislation

Government Policies i. e. tax benefits or building social housing

Building Technology

### **Supply for owner occupied housing:**

The supply curve is upward sloping, but to determine the supply for housing, it is mostly decide by the house prices; therefore when house prices are high, this will encourage more people to built houses and the curve will shift

itself as an increase or decrease in supply. For example, when advance building technology takes place, it is a way that can reduce the cost on building houses, and increasing the revenue for suppliers, the supply curve S1 will ultimately shift to the right S2, as shown in graph 1.0, this represents an increase in the quantity supply at each and every price such as using the prefabrication technique, it will reduce the construction period and labour cost comparing with the in-situ technique.

In another hand when the cost of the building houses increase, i. e. when the availability of labour are less, it will raise the labour cost. This will lead the supply decrease, and to apply this to the graph 1.0, the supply curve S1 will then shift to the left S3. [http://www.tutor2u.net/economics/revision-notes/as-markets-supply\\_clip\\_image002.gif](http://www.tutor2u.net/economics/revision-notes/as-markets-supply_clip_image002.gif)

### **The non- price determinant factor affecting demand to change:**

The current price of housing

Income and life expectations rates of change

Statistics of the number of households

Government policies i. e. tax benefits or building social housing

Mortgage and interest rates

### **Demand for owner occupied housing:**

The demand curve is downward sloping from left to right and when demand curve shift to the right or left it will represents an increase or decrease of

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demand. Through graph 1. 1, the demand curve D shift to the right D1 indicates that when there is more demand on properties. This fact can be achieved by the non-price determinant factor, i. e. when mortgage interest rates are low, it will make the property more affordable, and also increase the demand.

In another hand, to decrease the demand will depend on the non-price determinant, i. e. When prices of housing are expected to fall the quantity demand will decrease because buyers will wait for a lower price and therefore will decrease the demand which will shift the demand curve onto the left D to D2.

[http://www.tutor2u.net/economics/revision-notes/as-markets-demand\\_clip\\_image006.gif](http://www.tutor2u.net/economics/revision-notes/as-markets-demand_clip_image006.gif)

## **Elasticity of Demand:**

### **Elastic Demand:**

Elasticity of demand shows the changes to demand in relation to the price.

Elastic demand means the price will not change much, but the quantity of the demand will have a higher rate. Properties which are elastic are normally luxury and it has a very competitive market and many alternatives.

Diagram: Elastic Demand Curve

### **Inelastic Demand:**

The demand curve in inelastic demand is steep, and it is dictated by the quantity of demand does not change to the same amount as the price do.

Therefore, the more inelastic the demand is the more steeper the curve is.

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In a short term run, when the price of house increased, the demand will be inelastic as there are no other choice and it requires time to find other close substitutes.

Diagram: Inelastic Demand Curve

### **Perfectly Elastic Demand:**

Perfectly elastic demand shows a horizontal line. This means that elasticity in demand is perfect, the reason for that is when there is any change in price and the demand slightly decline or nothing, then the price elasticity of the product is infinity. For example, when the supplier increases the price above the market equilibrium the demand will evaporates as the buyers will choose the cheaper option.

Diagram: Perfectly Elastic Demand Curve

### **Perfectly Inelastic Demand:**

Perfectly inelastic means that quantity demanded or supplied is unaffected by any change in price. In other words, the quantity is essentially fixed. It does not matter how much price changes, quantity does not budge. Perfectly inelastic demand occurs when buyers have no choice in the consumption of a good. In an analogous way, perfectly inelastic supply occurs when sellers have no choice in the production of a good.

Diagram: Perfectly Inelastic Demand Curve

## **Elasticity of Supply:**

### **Inelastic Supply:**

When the quantity of supply is less than the increase in price, then the price elasticity is described as inelastic. According to graph 10000 the supply curve is shallow due to the given change in price there is a smaller change in supply.

For example when government have announced to build more social housing, the houses will not be constructed immediately, because it takes time for the legal complexities, obtaining planning permission and also the construction period. In the short term the construction are price inelastic and this will classified as supply inelastic.

Diagram: Inelastic Supply Curve

### **Elastic Supply:**

When the quantity of supply is greater than increase in price, then the price elasticity is described as elastic. The curve which is shown in figure 1000 indicates for a given change in price there is a greater change in supply.

The most important issue to determine the supply whether is elastic or inelastic, time tends to be the main matter, in long term supply the quantity of houses will increase and it will therefore becoming more elastic.

Diagram: Elastic Supply Curve

**Perfect Inelastic Supply:**

The supply curve is vertical as the quantity of the product remains steady and it is produce regardless on any price.

For example, land is perfectly inelastic supply due to houses price increase and the land supply remains the same. Areas that are not developed can built up, in addition developed areas can also change its land use, however these are time consuming.

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