

# Literature review on the determination of housing price economics essay



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Literature review is one of the important elements in research in order to gain broader ideas. According to Uma Sekaran, literature review can be defined as a broad documentation review by which published and unpublished work from secondary data in the areas of a particular interest to the researcher. It discusses the importance of the subject, the type of theory or method used in the research and as well as to provide with the background and history of a particular area. Furthermore, there are 3 steps in the literature review process. Firstly is to identify the various material and access, secondly to gather the relevant information, and thirdly to write up the literature review. A good research should consist of eight important elements including purposiveness, validity, replicability, generalisability, objectivity, reliability, testability, and able to create a new thing or better known as rigor. We can gather literature review sources through books, reports, monograph, thesis, conference proceeding, working papers, and the most commonly used by many is the journal research articles.

## **The Determination of Housing Price**

House is one of the important elements in basic human needs. People need a house to stay away from danger, hot weather, rainy day and as well as a place to stay calm. As long as people can fill the comfort of living under a roof then it is called a house. However, the things that matter is that the affordability of a person to purchase a house. Some people can afford a house that is really comfortable to stay in and some not. People who are called the rich and famous can afford a house that is almost called a heaven and some can only lives in an ordinary but comfortable house. But it doesn't matter how our house may look like because the price of house is what that

matter. We can see that the housing price is increasing as the time goes by. This may be an important area to look upon because more or less it could affect the economic level of a country. Therefore, a housing price can be defined as the rate of payment that one has to pay in order to purchase a house and for sure there are several factors that lead to housing price determination.

In my own point of view, I believe that the increment of a housing price is due to the price increment in the raw material. Many may have similar idea but after looking into 10 journals as references for my propose topic, I have found out several more important variables that leads to the factors of housing price determination. There are few number of knowledgeable individual turned up and able to find the contributing factors in determination of housing price. One who has studied using an empirical analysis has shown that income (demography trends) and nominal interest rates are the key explanatory factors in housing price. On the other hand, the equity returns may also have been an influential factor in the determination o housing price (Pages & Maza, 2003). In other studies shown that, the empirical approach, panel unit root test, panel co-integration, and error correction model were applied in the research. The result is similar in which the level of income and interest rate were the main factors. But it was tested in a different method whereby the current level of income and interest rates determine how much an individual can borrow from financial institutions in order to purchase a house. This decision of how much the borrower can borrow from the bank or financial institutions is one of a way to determine the level of house price (McQuinn & O'Rielly, 2007). For example,

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the higher the interest rate, the higher the price of housing. However, another different point of view can be found in the study of Yazgi & Dokmeci (2007), in which, applied the multiple regression model and it was found that the most important factor affecting the housing prices is the size of the floor area. The second and third most effective factors are the road surface ratio and the floor area, and fourth factor is the distance of housing to the seashore. This means, the bigger the size of floor the more money a purchaser will have to pay. This study is obviously different from the previous study. It looked upon the geographical area. The studies of Hiebert & Roma (2010) by using the empirical and regression analysis have shown that even though a particular location is associated with facilities, population differences across cities influenced more. Therefore, even if a particular location is fully facilitated, people will still prefer living among a population. Other studies that used the new quarterly regional panel data set shown that out of 14 regions, there were 11 regions that have the major impacts in term of housing services and amenity values. The price expectations that is predictable contribute to the increased of housing price. Thus, it was found that the price of housing is influenced by the regional economic activity, the regional housing stock and the user cost of capital (Grimes et al, 2004).

In another different study, correlation and multiple regression analysis was applied by a Malaysian namely Tan. The study shown that the Malaysians' per capita income, unemployment rate, total loans to housing and KLSE Composite Index plays important role in the movement of Malaysian house price. This means, the economic and financial factors were identified as applicable in determining the demand and supply of housing units. In a study

of Allen et al (2006), by using the empirical analysis, new house price, union wages, issuance of building permit. According to Yan et al (2010), an empirical analysis and the error correction model error correction shown that land supply has a major impact on house price fluctuations while demand factors such as user costs, income and residential mortgage loan have greater influences. In the long run, the price is influenced by the land supply and the financial system. However, in the short run, the changes in land supply and financial system will then effect on the user costs, income, and residential mortgage loan. To add more, the demand factors which consist of the user cost, income, and residential mortgage loan is found to give greater impact in the price fluctuations of housing price. Again in other studies of McMillen (2003) using the Fourier repeat sales approach, it was found that income and population can influenced the prices of house. However, he then found out that people with higher income moved into the older part of the area in Chicago city due to the increasing housing cost. In another study of Hilbers et al (2008), the empirical analysis shown that user costs, demographic (age, gender, income) factors and output gives impact in the determination of housing price. It was found that the most influential factors were the income and the user costs.

After went through the journals on housing, it helps to indentify and considered the contributing factors in the determination of housing price. I have found out several factors that contribute in the determination of housing price. Those factors I have found includes the interest rate, income, geographical area, population, unemployment rate, housing loan, KLSE Composite Index, user cost and as well the economic activity and regional

housing stock. But, the most common factors are the interest rate, income, population, and user costs. In another way, it also helps to figure out the type of analysis or framework that had already been used as a method in research. As an advantage, it will help to determine which method is the best choice to be used in the research. Therefore, when the method to be used is already discovered, it will enable researcher to formulate suitable theory in order to test or formulate hypotheses.

## **Conceptual Framework**

Interest rate

Income

Housing Price

User costs

Land supply

Financial system

Population

Conceptual framework or better known as the Theoretical framework is a conceptual model of how one came up with a theory or to make a logical sense of the relationship among the identified factors of a particular problem. It consists of the independent variables on the left side while the dependent variable on the right side as the above sketches of theoretical framework. The independent variable can be defined as one lends itself. On

the other hand, the dependent variable does not lend itself. In addition, variables refer to anything that differ values.

The independent variables consist of interest rate, income, user costs, land supply, financial system, and population. Interest rate refers to the interest rate on bank loans or land value. When interest rate increases, the house price will increase too. Income is one important element in determining the housing price, whereby, income may determine that a house can be afforded or not. User costs refer to the cost by a particular person. It plays an important role because the when user cost doesn't exist then it is not easy to determine the price of house. Land supply is also an important factor whereby a land needed an approval before building a house on it. Financial system refers to the housing loan from bank, residential mortgage loan or the conditions of economic of a particular country. Population refers to the people living in an area. More population means demand on housing will increasing and therefore leads to supply of housing. On the other hand, the dependent variable only consist of one variable in which the housing price. The housing price depends on the any changes in the independent variables. Small changes in one of the independents variable will give effect in the determination of housing price.