A new house decision economics essay

Buying a new house is an exciting and also a very tiring exercise. However the delight of moving into a new house is mostly overshadowed by the frustration involved in searching, and negotiating for a new house. The process of buying a new home is very lengthy. This implies that someone should be prepared to dedicate a lot his/her time and energy into the process. So as to make the dream of moving into a new house a reality, and have no negative consequences thereafter, someone needs to put a number of factors into consideration. According to Wakeling (2010), many buyers have made costly and devastating mistakes as a result of poor preparation as well as the failure to consider vital factors like; the economic principles, national fiscal policies as well as the house condition and the local area among others. This article is aimed at laying down some of the important factors that one needs to put into consideration before buying a new house.

Things to consider when purchasing a new house

Principles of economics

In our daily life, the behavior and decisions made by human beings are usually affected by the prevailing economic situations. Most people will either consciously or unconsciously use economic theories to either adopt or reject a decision. These theories are also very important in making an economic decision like that of buying a new house. First of all the decision of purchasing a new house is in many aspects a large and important decision. This is mostly because buying a house is a very expensive exercise which can deprive someone of all his savings. This implies that the demand of houses is at all times highly price elastic. According to the economic theories, “ the larger the proportion of income a certain purchase requires, the more price elastic the demand will be” (Leece, 2004). When it comes to purchasing a new house, the decision will involve spending of a big proportion on the average income of an individual, which will consequently lower the subsequent purchasing power of the person.

Moreover, buying a new house also implies that people will have to move from a familiar environment to one that is less familiar; an experience that can be life changing and scary to some people. One of the main principles of economics considered is that of tradeoffs. In this case, the decision to purchase a house will take away a large proportion of their savings. Tradeoffs will therefore be the other alternatives that people will have to forsake so as to have a new house (Leece, 2004). Some of these other alternatives can be taking a child to the university and/or buying a new car. This means therefore that one should consider the advantages and disadvantages of doing away with the other alternatives against that of purchasing a new house.

Although buying a new house can be expensive and tiring, it can also come tagged with several benefits which make the exercise worth undertaking. According to Leece (2004), a new house will mostly mean a newer and cleaner environment and this can be beneficial to the children’s health. Moreover, a new house will mostly provide a larger space, hence a more comfortable living environment for the family. Someone therefore makes a decision to buy a house when he/she is convinced that its worth to forsake the other alternatives for the benefits of the new house. In this perspective, the decision of buying a new house is worth considering the benefits that will come along with it.

The other principle of economics that applies to my decision of buying a new house is that of opportunity cost of the decision. According to Kurz & Blossfeld (2004), opportunity cost in this case refers to the value of the next most appropriate alternative that one has to forsake. This value will involve both the explicit and implicit costs. The explicit cost is basically the total amount of money spent in buying the new house; while implicit cost is the estimated non-monetary costs like those of losing good neighbors. Implicit cost can also include the possible bond that one can create with the other family members, should the same amount of money be spent on a family holiday instead.

Marginal costs and benefits is another economic principle which I applied to my decision to purchase a new house. Normally, someone will only make a decision when the marginal benefits are equal to or greater than the marginal cost (Leece, 2004). In this situation, the marginal benefits of my decision to purchase a new house include better environment and vicinity that is closer to schools and local services. In every purchasing decision, the marginal costs and benefits are usually considered. Some examples of these benefits include; lager space, cleaner environment, and a more convenient location that is nearer to school and other local services. Facilities within the environment such as sports complex, gyms as well as shopping malls can also be considered as marginal benefits of purchasing a new house.

Purchasing a house will always reduce the savings of a person and therefore make him/her less able to buy other goods like petrol and groceries. The marginal benefits and costs of the decision to purchase a house will therefore depend on certain factors such as the income of a person. When someone is poor, the decision to buy a new house will affect him and/or her more seriously than when a person is rich (Leece, 2004). One of the factors that can interfere with the marginal costs and the marginal benefits associated with the decision to buy a new house is the state of a country's economy. When the state of the economy is good, consumers will be more likely to enjoy stable jobs and higher wages as a result of growth in the economy as well as in the Gross Domestic Product. In such a situation, consumers will have more purchasing power due to their higher income.

As a result the consumers will therefore be less affected by purchases like that of a new house since they will be having more money. The consumers will therefore be less anxious about the decline in purchasing power. On the other hand, when the economic situation is not healthy for instance during recessions and economic slowdowns, the Gross Domestic Product will fall and this will negatively affect the consumers (Kurz & Blossfeld, 2004). For instance, during recession some companies may find it difficult to sustain their employees and may therefore be forced to retrench some of their staff so as to minimize the operation cost: When this takes place, there is increase in unemployment rates which leads to low income rates. As a result, the consumers will have limited disposable income and will therefore be less willing to purchase a new house.

Moreover, according to Leece (2004), when the economy is not in good health, the marginal benefits will be outweighed by the marginal costs since consumers may be unable to afford basic commodities such as food and petrol if they spend large proportions of their income and savings on new houses.

One important factor that should be understood in this analysis is that the strength of the economy is usually affected by international trade as well as the domestic economy. These two factors greatly weigh on the decision to purchase a new house. First, the domestic economy constitutes components like trade, government spending, level of investment as well as the level of consumption (Leece, 2004). Any change occurring in any of the components will always affect the economic strength of a country. For instance, an increase in government spending helps in increasing the Gross Domestic Product resulting in economic growth hence contributing to increase in jobs and wages. On the other hand, a decrease in government spending leads to a contractionary effect on the economy. This implies a reduction in the Gross Domestic Product thus reducing the income level and the number of jobs obtainable in the economy. The economy’s balance of trade is also affected by the international trade. When the trade balances increases, the Gross Domestic Product also increases. According to Leece (2004), this increase then results in an increase in the growth of the economy which will then allow an increase in jobs and wages. On the other hand, if there is a fall in the balance of trade, the Gross Domestic Product will fall hence lead to a decline in number of jobs and wages.

In the same way, the international trade affects the prices of houses since we depend on the import and export of construction materials. Thus, a decline in the import of materials may result to a low supply of houses leading to an increase in their prices which affects one's decision of purchasing a new house (Kurz & Blossfeld, 2004). Job stability and future factors such as natural calamities and economic recession can affect the decision of purchasing a new house. For instance, the housing industry in the United States of America is currently declining as a result of decline of employment opportunities and recession in the country. As a result people have decided to hold their earnings and save while hoping for better times in the future. This has, on the other hand resulted in the decrease of the prices of houses thus prompting buyers to invest in new houses. The number of family members is also a potentially important factor to consider when buying a house.

National Fiscal policies

The government through its fiscal policy plays a huge role in the housing industry and therefore buyers should this into consideration when purchasing a house. The Federal Reserve is responsible for the national fiscal policies which then influence the housing industry in the United States. The Federal Reserve makes decisions on the rise and fall of the rates of interest within the economy. For instance when the interest rates decrease, there is introduction of more money into the economy. In addition, at low interest rates, buyers are able to borrow money which used to purchase new houses as well as take out long term mortgages (Hardy, 1942). On the other hand if the interest rates increase, there will be less money going into the economy.

At high interest rates, borrowing becomes expensive and the purchasing power of potential house buyers is eroded.

This shows that the country's fiscal policies can affect house buying decisions either positively or negatively. The treasury department is another government body that affects the national fiscal policies thus affecting the housing market. For example, in the year 2009, the treasury department introduced a program called (HAR) Home Affordable Refinance and made it available to house owners who showed a solid payment trend on an ealier existing mortgage owned by Freddie Mac and Fannie Mae. These house owners were able to repay their loans and capitalize on today's reduced mortgage rates. Though there are several fiscal policies that can interfere with the mortgage rates thus affecting the housing prices, the lending rate is the most crucial issue. The lending rate establishes if the lenders can borrow funds from the Federal Reserve so as to put them into housing starts and mortgages. Therefore the higher the rates of interest go, the higher the house prices. On the other hand, if the rates of interest are too high, many consumers will be able to utilize the banks and therefore the price of houses will begin to fall (Leece, 2004). A first time house buyer is therefore advised to purchase a house using the " American Recovery and Reinvestment Act" which gives the first time house buyers an up to $8, 000 tax credit.

The United States DHUD (Department of Housing and Urban Development), is another government body that can influence the housing market. For example, in the latest fiscal year's budget proposal of 2011, one of the set goals will be to create and retain more than 112, 000 jobs through the housing and economic development investments of the DHUD, in all communities across U. S. This implies that there will be an increase in the level of income which will enable consumers to have more disposable income that will in turn stimulate an increase in house demand. Eventually this will result in the increase of house prices. For this matter, when buying a new house, people should make good considerations of the plans being implemented by the government bodies so as to make more correct projections of housing prices (Wakeling). This will in turn enable consumers to purchase houses at lower prices which will in turn increase their level of satisfaction.