Households

Among the major basic human needs is shelter that is usually in the form of housing. Nowadays, the kind of a house that one owns determines how much wealth he/ she has either the house was built by themselves or bought from other individuals. But most people usually prefer buying or renting houses rather than build them themselves and this has made the prices of houses, both rented and sold get a lot of attention in the day to day world (Davis, 2005). The issue of house prices, whether low or high has been greatly discussed since it has become a major issue today. The value of residential privatized assets is about the same as the non-residential privatized assets.

In order to come to a settlement with the issue of housing prices, one has to be able to tell what the normal house price is. This is due to the fact that the price of houses in relation to their consumption is not at a standstill but it increases gradually overtime. The price that is paid for the services of housing has also increased alongside the prices of most goods and services consumed by households. If the price of houses was equivalent to the price of consumer goods, then the relative prices of houses would become constant and would not change but this is not the case. In some countries, housing is considered as a main factor of economic growth since good housing improves the standards of living of people and also brings a lot of money to the people renting or selling them.

But there has been a major question whether housing really promotes economic growth by the output it gives? From the research that was used on China as an example, it was clear that housing consumption changes individual consumption and they rely on capital accumulation. The removal of the policy on provision of welfare housing in China around ten years ago

resulted to the provision of market- oriented urban housing which served as a contributing factor in the Chinese urban housing reform. From then, house prices have become too high to afford and this has been as a result of privatization of public houses. A report released in 2010 shows that most households were affected by the housing reforms since they now have high level of durables or household properties like computers and air conditioners. The group that was not affected by this reform did not have the high level of house hold properties.

The report also states that the probabilities of purchasing these high level properties also increased over a short period of time. Overtime, the effects of the housing reforms on the acquisition of high level durables and property like color television, refrigerator, washing machie and telephone has reduced. In China, the balanced housing prices are determined by the basic economic conditions. These balanced prices greatly affect the variation of the actual prices of commodities thus making the balanced prices of commodities to be achieved through self adjustments. The housing prices in China are expected to rise in the future.

So as to get the correct answers to the question whether housing really promotes economic growth by the output it gives, we perform a simple analysis on the issue (Davis, 2007). Having in mind that housing consumption occurs in both developed and developing environments. This means that, even the already developed also have the need to get better housing than they are already residing in. We shall base our analysis on the Ramsey growth model (1928). In his model, Ramsey set out a plan to

analyze the problem of maximizing the levels of consumption over generations. He also used the recent technique used nowadays.

Economic growth is mainly promoted by a certain variable that causes economies to grow. This variable is also known as the factor of production. A factor of production is defined as a primary factor or resource that is used to produce a good or a service that is meant for human consumption. Long ago, labor, capital and land as factors of production were considered as the main factors responsible for economic growth but nowadays, these factors are becoming less considerable as means of economic growth since many models, including the Ramsey model, are moving away from them. According to the National Institute of Pension Administrators (NIPA), which measures the price of residential structure, there is a difference in the housing prices over a period of time while Standard & Poor's (S), which measures the constant quality house price which is a combination of the price of the residential structure and the price of land. From the year 1929 to 2007, the NIPA index doubled while the S index for the year 2007 was almost three times that of the year 1929 (Davis, 2007).

This was due to the fact that there was a rise in the price of residential land over the years which led to the increase of the S index which also comprises the price of the land and the residential structure. Recently the need to interplay housing and macro economics has become a subject of major significance. Looking at previous literature, few of this work has conducted a research on the relationship between taxation and housing. Cheng et al, 2010 elaborates an endogenous growth model, where both house price and house value to coonsumer's consumption grow steady in the economy

(Leung, 2003). In an economy there are two production sectors. One sector produce housing and the other production sector produces homogeneous capital/consumption good.

An economy is also assumed to have three factors of production, land, labor and capital denoted by L, N, and K respectively which are allocated into the two production sectors. Technical progress is assumed to be different across these two sectors. We take a representative household which will have the following size N number of houses whose members grow at a constant rate denoted by n. Then the household will have the following optimization problem (Jin and Zeng, 2004). Here are the proportions of capital, labor, and land, respectively, which are allocated to the general goods sector.

A and B represent the technology levels while m denotes the growth rate for land, and represent the depreciation rate of capital. Represent capital shares in the two production sectors while represent the share of labor. Assumptions of the model Housing treated as a separate sector in the economy. The houses are occupied by the owners and their services to the house are proportional to the house stock at every point in time. The rate of technology progress in the housing sector is different from the other sector of the economy. We then letAnd be the co-state variables attached to the motion equations for K and H.

From this the price of house in terms of consumption good is P The Roles of Land and Population Growth We assume that land has a positive share in the economy then the difference in population growth and the growth of land have a role to play. From equation (9) land commands a positive share in the

general good sector, then the economy population growth depresses the growth of consumption per capita, while land growth exerts an opposite influence. If land has zero share in the general goods sector = 1 then neither population growth nor land growth sector the growth of consumption per capita. Conclusion This paper finds out that the long run determinant of relative price of house growth model in the housing sector is the rate of technological progress in the two sectors of the economy the good sector and the housing sector. Population growth vs the rates of land growth, also affects the relative price of houses.