A new house decision research paper

Business, Marketing

Introduction

Various economic principles are applicable in purchasing of assets. When purchasing a house economic principle influence the choice made regarding the deal. This includes principles such as the principle of trade offs, opportunity cost, thinking at margin rationally and the principle of response to incentive. One ought to carry out a cost benefit consideration to gauge whether the net benefit of making the decision to purchase a new house is positive.

The strength of the economy will influence the marginal costs and marginal benefits associated with an investment decision. A strong economy offers stable conditions for making a decision. Several factors in the economy affect the marginal cost and marginal benefits. These include the level of technology, the taste, preference and fashions of the population, inflation and ease of access of relevant knowledge.

The economic strength of a country can be measured using parameters such as the gross domestic product (GDP), inflation level, level of unemployment, per capita income and the number of infant industries in the country. Increasing GDP indicates a stable economy that favors investment. While low stable rates of inflation, shows that a country has a stable economy. This may not be easily affected by inflation in other nations.

Principles that influence purchase of a new house

In acquisition of a new house one needs to put into considerations several economic principles. This enables one to make a good decision based on informed costs and benefits associated with such decision. These principles includes the principle of trade offs, opportunity cost, thinking at margin rationally and principle of response to incentives.

Principle of trade offs

To acquire the new house, some price must be paid for it. This is because it has a monetary value attached to it. The asset must be valued and a price stated by the legal owner depending on the market conditions. To acquire it, the sum of money i. e. the price must be paid to the owner. The value of money in hand is fixed. There are several needs which the money can satisfy, buying the house being one of the many needs. For every dollar spent on purchasing the house, it means there is a need which is left unsatisfied. Spending more dollars in purchasing the house, means there are other more needs that are left unattended. There is the tradeoff between efficiency and equity. The money at hand needs to be distributed between several needs equitably, for example, one should not be left hungry to buy the house, but, the money at hand should only be allocated to the most efficient need. Therefore, one must make a decision on the way to follow. (Gregory, 1998).

The opportunity cost principle

One faces trade off in any purchasing decision. This is because one must consider benefits and costs of every alternative. Purchasing the new house is one among many goods and services which can be purchased using the available money. This is not an easy decision to make, given that purchasing a good or a service comes along with costs and benefits which may not be easily quantified. For example, purchasing the new house may come along with some prestige and some costs. In case, where the house is a distant from current place of resident, one must leave behind many friends and probably business partners. In addition, quantifying the costs of a foregone alternative is quite difficult e. g. it is very difficult to quantify returns like making a better decision in future. (Besi, 1996). Therefore, the cost of the house can be said to be the same as the cost of foregone alternative. One has to consider this trade off to determine either to purchase the house or not.

Principle of thinking at margin rationally

One needs to achieve the economics objectives given the available opportunities at hand. This can be achieved by comparing marginal costs and marginal benefits. The economic issue is that, spending the available money on the new house that is going to give the highest benefits. This question must be answered before spending on the new house. Therefore, the highest benefits are all what is required in economics. One has to evaluate the benefits accrued in purchasing a certain house as compared to another similar one in a different region or within the same area. The house that gives the highest benefits should be acquired. (Gregory, 1998).

The principle of Response to incentives

In any purchase of a product, there is a driving incentive behind it. In many cases, one can be made to purchase a new house, if the current rented house is not well furnished. Therefore, comfort will act as the motivating factor towards purchasing the new house. In addition, if there is a discount one will get on purchasing the house, the discount will be the incentive.

Incentives can drive someone to purchasing a product. In purchasing the new house one may be motivated by incentives such as nice mode of payment, a well constructed house or even social pressure to own a house. This motive determines the nature of the house to be purchased.

Marginal costs and benefits associated with purchasing the house

Consumers seek to add benefits to a product until increase in benefits equal increase in costs. In purchasing the house, the two forces need to be reconciled. One of the forces seeks to increase value function and the other to reduce value function. Therefore a rational consumer will seek to maximize the utility (utility is benefit) derived from purchasing the house. This will only be achieved when marginal benefits equal marginal cost. This brings about the law of equi-marginal utility i. e. utility and purchase cost. This law guides in the allocation of limited consumer income to the purchase of the new house and other unlimited wants under consideration. Therefore, one will only purchase the house if and only if he or she will derive maximum satisfaction (utility). This makes the consumer to be rational given the assumption that the wants are unlimited, but, the income is fixed, the market consists of many buyers and sellers and that utility can be measured i. e. cardinally. (Taylor, 2007).

The utility of purchasing the new house or any other commodity is measurable. The purchase of either the new house or any other commodity is both comparable and quantifiable. A rational consumer will substitute the new house for any other commodity, which has high level of utility. However, in purchasing indivisible item like a house, may sometimes negate this law. It brings the idea that one must consider the level of utility before committing his or her income to the purchase of the new house. (Salvador, Hammond and Seidl, 2004).

One must carry out cost benefit analysis before the purchase of the new house. It is recommendable that one to purchase the house when the benefits derived from purchasing the new house exceeds the costs to be incurred. In measuring benefits, both tangible and intangible benefits like comfort and convenience must be considered. The cost benefit analysis ensures that rational decisions are made.

Influence of economy strength on marginal benefits and marginal costs

Marginal benefits and costs incurred are influenced by the interaction of the forces of demand and supply. They determine the equilibrium price of a commodity in the prevailing market conditions. The equilibrium price will determine the cost to be incurred in purchasing the new house. (David, 2007).

Tastes, fashion and preferences determines the marginal benefit to be obtained in purchasing the new house. For example, if all people in the country are of the view that owning the house is quite fashionable and brings about respect. This shows the social benefits obtained from purchase of the new house. In addition, to the societal views, individual’s taste regarding the new house determines benefits obtained on purchase of the new house.

The Cost of leasing/renting houses determines the cost that is to be incurred in making this purchase decision. This is costs of related products in the market, which is the cost of renting a house of the same quality. Therefore, it is possible that the price to purchase the house will be high, if the cost of renting a house is very high.

The market expectations on changes in cost of houses in the market influence marginal costs. The cost to be incurred in purchasing the house will be high when traders expect long run rise in market equilibrium price. On the other hand, when the equilibrium price of houses is expected to fall in the future, this means that the present market price can be bargained and the seller can settle for a less price.

In case where many people are willing to purchase the house, the price of the house may be revised upwards. This means that the buyer must part with more money than when very few people were interested in purchasing the house. The increase of the cost due to increased demand leads to increase in marginal costs. (Taylor, 2007).

Cost of constructing houses in the economy determines the value of the house. The direct and indirect cost incurred in constructing the house determines the overall cost of the house as well as the selling price. Assuming that the seller is rational, then he/she needs to set a price to cover all the cost and get some profit out of the sale, then the cost of construction must be included. Therefore, if the price of construction materials is high, it means that the buyer must part with additional dollars to obtain the house. High cost of construction materials would result to an increase in the cost of the house and hence an increase to the marginal cost.

The number of houses available for sale determines the cost so house in a place. A small number of houses available for purchase make the cost of houses to go up. When there are few houses for sale in the market then sellers are likely to increase the price of the houses. This means that the buyer must part with more dollars than times when many houses are available for purchase.

Level of technology applied in purchasing the house affects the marginal benefits and cost. The higher the level of technology used in purchasing the house the lower the cost to be incurred. Therefore, if the existing technology is high, it means that raw materials were efficiently utilized. Therefore, the marginal costs vary directly with the cost to be incurred by purchasing the house.

The knowledge of availability of other houses and their prices will affect the price one will be willing to pay. Therefore, if there is no adequate information then there is high possibility that the seller will have a higher bargaining power and likely to fetch higher prices for the house.

Cost of capital influences the marginal cost and benefits. The cost of capital is the money on top of the principle amount of the loan obtained to purchase the house. In purchasing a new house, marginal cost will be altered by the interest charged in obtaining a loan to purchase the house. Therefore, if the country’s prevailing interest rate is high, one must pay more to obtain loan for any project. This raises the marginal costs on purchasing the house.

Businesses that experience economies of scale have low marginal cost than those which experience diseconomies of scale. The cost of building many houses at once lowers the cost incurred per house. This means that the cost to be incurred in purchasing the house is low. This is due to lower average costs incurred by the seller. (Hayek, 2007).

Advertisement causes an increase on the marginal cost. Where the seller is forced to change the price of the commodity now and then and advertise, this changes means that additional costs are being incurred. These changes in costs may be due to inflation or other factors. The cost of this must be felt by the buyer of the house. The cost of deciding the new price is transferred to the buyer.

Consumers decide on how to allocate their scarce resources through comparing relative prices of the commodities. Inflation distorts relative resources, this intern distorts consumer decision pertaining how to use the resources they have. Therefore, in purchasing the house one must compare its price with price of other needs. One may make wrong decision where prices change now and again.

Domestic economy and international trade in assessing the economic strength

There are several tools that are used to measure the level of economic strength and growth. These include the use of gross domestic product (GDP), employment rates, inflation rates and number of infant industries.

Purchasing a house in a stable economy, one is assured that the house does not lose its value with time. In case where one wants to resale the house, can do so at profit.

GDP as a measure of economy strength

The expenditure approach of calculating GDP considers totals consumption, investment, government expenditure and exports minus imports. This is for an open economy, in a closed economy exports and imports are not included. Therefore, if a country has liberalized its market and its exports are rising, and are above imports then it means the country's economy is stronger. The income approach will indicate that citizen's income has grown over time. To know how the additional income relates with the change in population, then GDP per capital income is calculated. The per capita income determines people standards of living. High per capita income indicates high living standards.

Rising GDP brings hope of stronger economy. Extend to which foreign trade can spread inflation and financial crisis from one country to another measures economic strength. A strong economy is not easily affected by inflation in other nations. The ability of one country to maintain considerable level of GDP as that of other trading countries fall, indicates that the economy of the county is quite strong. (Benjamin, 2010).

Employment and inflation

Employment and inflation are key factors in determining the strength of the economy. There is a trade off between the two factors, where the government aims at reducing inflation and increasing employment. When government puts in place adequate policies to control unemployment and counter inflation then the economy is seen to be stable.

The monetary authority of any country controls liquidity to check inflation. where the level of aggregate demand in a country should be enough to purchase the goods required to avoid cases of demand pull inflation. (Robert, 1982). A country tries to increase demand of its products abroad, so that the domestic investment can rise, consequently reducing the rate of unemployment.

Infant industries

Government puts policies in place to protect young and growing companies from unfair competition of foreign companies. These enable a country to produce adequate goods and services for local consumption and reduce over reliance on foreign countries. Therefore, if a country can produce enough goods and services to satisfy the local demand, then the country can be seen as economically stable.

Condition that could change the decision of acquiring a house

There are situations and circumstances that may lead to change in making decisions about the purchase of a new house. These factors includes shortage of resources required, other pressuring needs that may arise and changes in government policies on land ownership. If the available resources are not adequate to purchase the new house, one must settle at another option. In addition to this, if allocating the available resources to this item will not give the highest level of satisfaction then an alternative must be considered. (Hayek, 2007).

Incase where the available information is not adequate on how the benefits from the purchase of the house can be realized, an alternative item which one has adequate information can be opted for. More over, if the government and local authority charges high taxes on buildings, one may change his/her decisions. This may occur when they realize that it is not profitable to sustain the land with high level of taxation.

Conclusion

In purchase of a new house and any other asset one has to consider several economic principles. These principles influence and determine the nature of decisions made. This includes principles such as the principle of trade offs, opportunity cost, thinking at margin rationally and principle of response to incentive. One ought to carry out a cost benefit consideration to gauge whether the net benefit of making a decision to purchase a new house is worth. The amount of utility derived from making a decision influences ones interest in making any purchase.

In purchase of the new house I would consider the value of the cost of the house to evaluate whether the resources available are able to meet this demand. This is because every resource leads to trade off between equitable allocation of resources among needs and efficiency in satisfying the most demanding need. Secondly, I would consider the level of satisfaction of the new house. The house settled for should be the most satisfying; it should satisfy the drive towards the purchase of new house. Thirdly, I would consider the marginal cost and benefits; house which has the highest marginal benefits and lowest marginal cost should be selected. tis is because the most economical house satisfies the economic objective. Lastly, I would consider the alternative options. In this case if going for alternative A is more economical and convenient than alternative B, then alternative A should be considered. This is so when the resources are not adequate to satisfy all the demanding needs. The purchase of the house should not leave other basic needs unsatisfied.

The strength of the economy will influence the marginal costs and marginal benefits associated with an investment decision. A strong economy offers stable conditions for making a decision. Several factors in the economy affect the marginal cost and benefits. These include the level of technology, the taste, preference and fashions of the population, inflation and ease of knowledge access.

Some measures of economic strength include GDP, level of inflation, unemployment rates, per capita income and the number of infant industries in the country among others. Increasing GDP indicates a stable economy that favors investment. Low stable rates of inflation, shows that a country has a stable economy. This may not be easily affected by inflation in other nations.

One may change the decision to purchase a house due to a number of reasons. This may result from shortage of resources required to acquire the house or availability of information on other houses available for sale among other reasons.

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