2022 A Level H1 CSQ 1

<table>
<tr><td>(a)</td><td>With reference to Fig 1, compare the trend in the real house price index for Singapore with that of Germany and Turkey over the period shown.</td><td>(3)</td></tr>
<tr><td></td><td>Any three:
Over the entire period shown, Singapore and Germany real price index shows an increasing trend whereas Turkey real price index shows a falling trend. [1]
Over the entire period shown, the change for Singapore and Germany is more gradual as compared to Turkey having a much sharper change. [1]
From Jul 2017 to Oct 2017, all countries experienced a rise in real house price index and after that period, only Singapore and Germany continued to experience a rise [1]</td><td></td></tr>
<tr><td>(b)</td><td>With reference to Extract 1, explain how ‘well-functioning housing markets where the consumer is sovereign’ can affect the supply of houses.</td><td>(4)</td></tr>
<tr><td></td><td>Extract 1 mentions “the right infrastructure, investment and macroeconomic policies towards inclusion can increase the effective demand for affording housing.” This gives the housing market the incentive to increase supply of houses. [1]
What are the incentives for suppliers to increase supply of houses?
- Extract 1 states that with “adequate infrastructure” which provides a strong regulatory environment for housing and “adequate flow of skilled labour and “housing finance” are all solutions to address housing ownership and thus result in the increase in the supply of houses. [1]
- Also in UK, government subsidies leads to a fall in the cost of production of houses and this will increase the supply of houses. [1]
- As in Lombardy, government provides tax incentives to developers will lead to a fall in the cost of production for developers and thus increase the supply of houses. [1]</td><td></td></tr>
<tr><td>(c)</td><td>Using price elasticity of demand, explain how ‘an increase in stamp duty’ (Extract 2) is likely to affect total expenditure on private housing.</td><td>(5)</td></tr>
<tr><td></td><td>Factor affecting the supply of private housing:
Extract 2 mentions that “there is an increase in stamp duty (i.e. a tax on property transactions) that house building firms must pay on the sale of a house.” This increases cost of production and thus reduces the supply of private houses. The supply curve shifts to the left from S to S1. [1]</td><td></td></tr>
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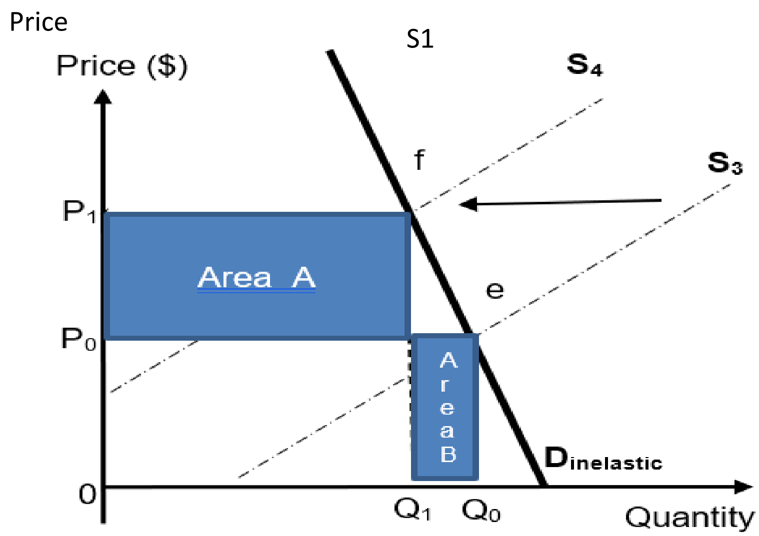

Factor affecting the PED of private housing

- Using Extract 2, it was mentioned that the 12% change in price of private properties, there is a less than proportionate change in qty demanded. We can see from here that demand is price inelastic. [1]
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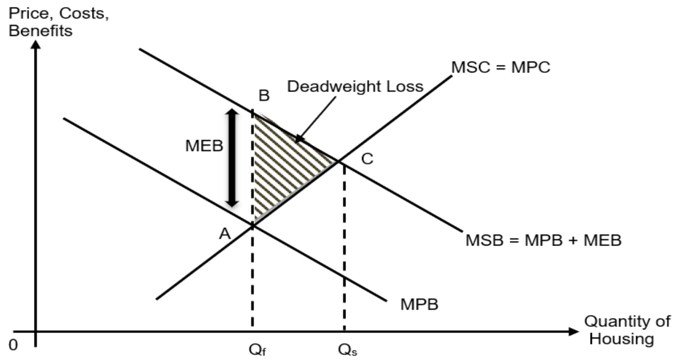
Impact on total expenditure on private housing

- When <u>demand is price inelastic</u>, a fall in supply from S_3 to S_4 would cause price to increase from P_0 to P_1 and quantity demanded decreases less than proportionately from Q_0 to Q_1. Thus, TE increases to $0P_1fQ_1$. [1]
- This is because the gain in TR due to higher price, given by Area A is greater than the loss in TE due to the fall in quantity, given by Area B. Hence total expenditure increases. [1]

Well-labelled and well-referenced diagram [1]

(d)	**'The benefits to society of residential ownership are greater than the private benefits perceived by the home owner.'** **With the use of a diagram, explain how this situation would cause the housing market to fail.**	**(6)**

	
	
	• Assumption
	    o Assume there are no external costs in home ownership and MEC = 0 hence MSC = MPC.
	• Divergence between MPB and MSB due to positive externalities [1]
	    o "Home owners may also contribute to society due to a greater sense of belonging. Moreover, it is suggested that higher rates of home ownership could lead to lower neighbourhood crime and higher youth academic achievement.". Thus, MPB is less than MSB.
	• Derivation of Qf and Qs [1]
	    o In the free market, consumers will consume houses at Qf where the MPB perceived = MPC.
	    o The socially efficient equilibrium where society's welfare is maximized is at Qs where the MSC = MSB.
	• Therefore there is under-consumption by the amount of QfQs due to imperfect information. [1]
	• Derivation of DWL using trapezium analysis [1]
	As a result of under-consumption of QfQs, the total benefits>total costs, resulting in net benefits forgone, which is the DWL of abc. Therefore, the government's economic goal of allocative efficiency is not achieved and thus there is market failure. [1]
	
	Well-labelled and well-referenced diagram [1]	

(e)	**Comment on the extent to which the information in RESIDENTIAL HOUSING SUPPLY (Extract 1) supports the view that the short run price elasticity of supply of housing is likely to be inelastic.**	**(6)**
	Explain that the information in Extract 1 supports the view that the short-run price elasticity of supply (PES) of housing is inelastic – 4 marks **[2 points, 2 marks each]** • Firstly, Table 1 shows that the average housebuilding planning process takes 196 days in Latin America and 201 days in Asia before construction can even begin. This suggests that there is a significant	

time lag between a rise in housing prices and the ability of developers to increase housing output. As a result, even if higher prices provide an incentive for firms to build more new houses, quantity supplied can only increase after a considerable delay. Therefore, in the short run, the percentage increase in quantity supplied is likely to be less than the percentage increase in price, indicating a supply that is price inelastic.

- Secondly, the extract states that housebuilding is a lengthy process involving not only planning but also land purchase, land clearance, construction and administering the sale of houses. These stages further restrict the speed at which housing supply can respond to changes in price in the short run. Consequently, the existing stock of housing cannot be expanded quickly, making supply relatively unresponsive to price changes.

Provide a comment:

- However, the information only provides partial support for the view. The data refers only to selected cities in Asia and Latin America, so it may not be representative of housing markets in other regions. In countries with more efficient planning systems, the time taken to start construction may be shorter, resulting in a more elastic supply response.

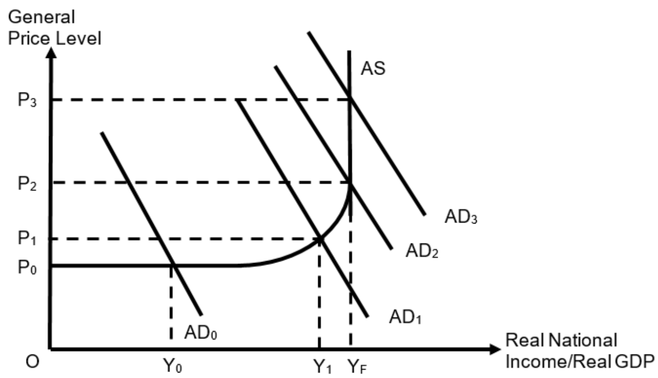
(f)	**Discuss the likely impact of a downward trend in the interest rates identified in Extract 2 on the standard of living of people in Singapore.**	**(9)**

Command	Discuss – explain and evaluate with a stand
Content	Start Point: - Fall in interest rates End Point(s): - SOL of people in SG Start Point(s) Fall in interest rates → Tool of Analysis AD/AS framework, HDI → End Point(s) material and non-material SOL
Context	Singapore
Approach	Intro: Key definitions of concepts. 1 liner overview.

Requirement 1: Downtrend in interest rates increase the material SOL of people in SG	Requirement 2: Downtrend in interest rates increase the material SOL of people in SG	[redacted]

	Evaluation 1: Downtrend in interest rates might not increase the material SOL of people in SG	Evaluation 2: Downtrend in interest rates increase the non-material SOL of people in SG	[redacted]
	Conclusion: Stand, Substantiation, Something Special		

R1: Positive Impact on mSOL



CD4: Diagram

- Fall in interest rates led to fall in the cost of borrowing which will incentivized consumption of big ticket items such as houses. Thus, consumption increases. Also fall in cost of borrowing for housing firms increase the profitability of investments and therefore I rises.
- An increase in consumption and investment leads to increase in AD and multiplied increase in RNY from Y0 to Yf via the multiplier effect. Assuming population constant, real GDP per capita increases, This income increase which increases purchasing power of people in Singapore, increases ability to purchase more goods and services and thus increase material SOL.

CD2: explain how fall in interest rates improve material SOL

CD5: refer to diagram

E1: Negative Impact on mSOL

- A fall in interest rates reduces the returns earned on savings accounts, fixed deposits and bonds. As a result, savers, particularly retirees who rely on interest income, may experience a fall in disposable income. This reduces their ability to purchase goods and services, leading to a fall in their material standard of living. If inflation exceeds the interest rate, means the real interest rate is negative. The real value of their savings may also decline, further reducing their purchasing power.

EV2: Evaluation using proper terminology

R2: Positive Impact on nmSOL

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An increase in RNY, will lead to a rise in the demand for production and an increase in the derived demand for labour. This will result in a fall in demand deficient unemployment. With a fall in unemployment here is less financial stress, less riots and fall in crime rates and social instability. The lesser stress may improve life expectancy and improve HDI. Quality of life improves and thus improve non-material SOL.
Also with increase in income, the government can collect more tax revenue. With more tax revenue, more funds will be available to provide merit goods such as education and health care. This will increase literacy rates and life expectancy and HDI, thus non-material SOL.

E2: Negative Impact on nmSOL

However, fall in interest rate may not increase Singapore’s non material SOL. With an increase in AD as a result of increase in C and I, RNY increases and production increases. As a result of an increase in production, there will be more carbon emissions resulting in environmental hazard and health issues. This may reduce the life expectancy of the country. Quality of life falls and HDI falls. This worsens the non material SOL.
With economic growth, people may have to work longer hours to increase production. Thus, they will enjoy less leisure and time spent with families which will result in a fall in non material SOL.

Conclusion

In conclusion, whether fall in interest rate will increase SOL or not depends not only on interest rate but on other factors as well. It depends on the situation of the country. If the country experiences a fall in economic growth and consumers and investors are pessimistic on the economic outlook of the country even when interest rates fall C and I may not increase, AD may not increase and SOL may not increase.
Besides interest rate, other data are also required to determine the SOL of people in Singapore. There are missing data on indicators such as carbon emission, stress levels, life expectancy to have an accurate assessment on the quality of life of Singaporeans. GDP growth rates are not given to show material wellbeing of the country as well as Gini coefficient to inform us about Singapore’s income distribution therefore do not tell us whether individuals are better off. Thus the impact of a downward trend in the interest rate is not adequate to reflect the SOL of people in Singapore.

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CD2: explain how fall in interest rates improve non-material SOL using HDI
EV2: Evaluation using proper terminology
EV3, EV4: Stand and weighing
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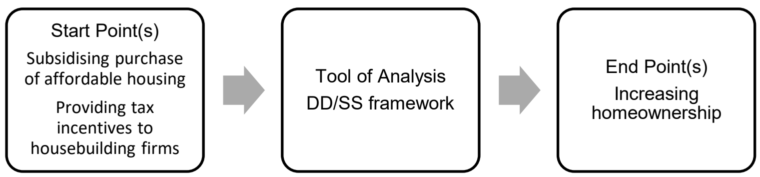
(g)	**Discuss the view that the best way for governments to achieve an increase in home ownership is through subsidizing the purchase of affordable housing rather than providing tax incentives to housebuilding firms.**	**(12)**

Command	Discuss whether – 2-sided answers
Content	Start Point: - Subsidising purchase of affordable housing - Providing tax incentives to housebuilding firms End Point(s): - Increase in home ownership (Equilibrium qty of housing increase)
Context	Any
Approach	(see below)

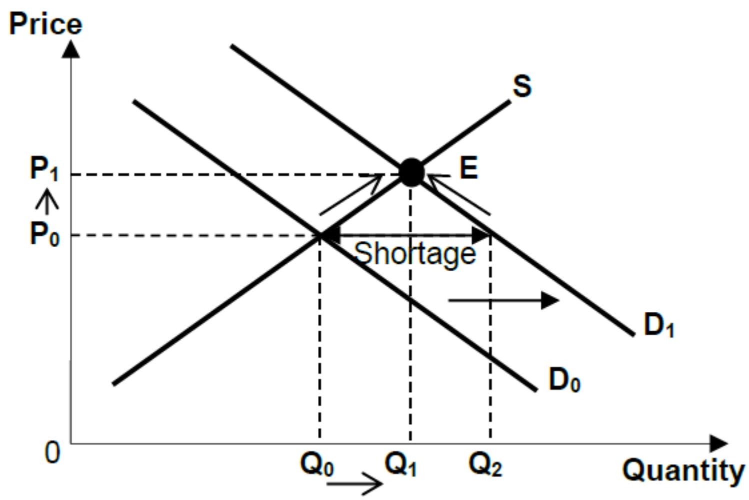


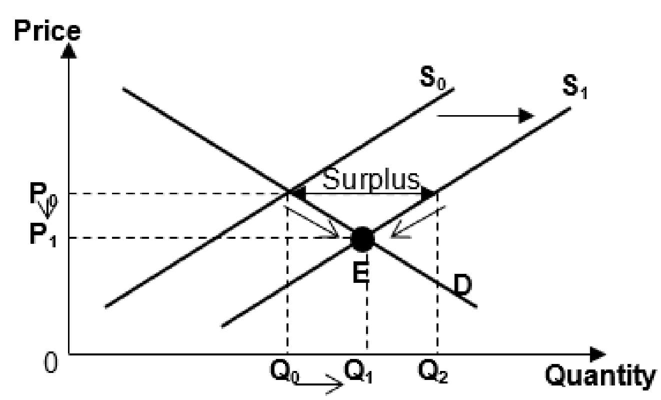
Approach

Intro: Key definitions of concepts. 1 liner overview.		
R1: Subsidising purchase of affordable housing can increase home ownership	R1: Tax incentives to housebuilding firms can increase home ownership	
EV1: Limitations to subsidizing purchase of affordable housing	EV2: Limitations to providing tax incentives to housebuilding firms can increase home ownership	
Conclusion: Stand, Substantiation		

<u>**Introduction**</u>

- The aim of the government is to increase home ownership. To increase the quantity of homes in the market the government may consider increasing demand via providing direct subsidies to the

	homebuyers / consumers, and provide tax incentives (i.e. a reduction in taxes) to the housebuilding firms / producers which will increase supply.	
	<u>R1: Subsidising the purchase of affordable housing is an appropriate policy to increase home ownership.</u>	A1/A2:Topic Sentence
		CD4: Diagram
	• The government can **<u>grant a direct subsidy</u>** to the homebuyers / consumers in the market for homes. For example, the Singapore government provides the CPF Housing Grants to new buyers of HDB BTO flats. Higher subsidies can also be granted to the low income households and lower subsidies to the higher income households. This therefore increase the affordability of hoses and thus increase the purchase of houses and equity.	CD2: Explain how a direct subsidy works to increase Qe
	• With the direct subsidies, the consumers have a larger purchasing power and are more able to purchase the houses. As such, the demand for houses will increase, illustrated by a rightward shift of the demand curve from D0 to D1.	C1: Use context of SG
	• After an increase in demand from D_0 to D_1 in Fig 16, the Quantity Demanded is at Q_2 and Quantity Supplied is at Q_0 at the original equilibrium price Po. This creates a shortage of Q0Q2 at the initial price P0.	C4: refer to graph when explaining PAP
	• The shortage would exert upward pressure on price. In response to the rise in price, producers will increase their quantity supplied and consumers will reduce their quantity demanded according to the Laws of Supply and Demand respectively. • The adjustment process continues until the new equilibrium P1 and Q1 is reached where Qd equals to Qs at Point E. Therefore, a rise in demand for a good, ceteris paribus, will cause a rise in both equilibrium price and equilibrium quantity. As the equilibrium quantity has increased from Q0 to Q1, homeownership has risen.	

	E 1: However subsidizing the purchase of affordable housing may not be the best policy to increase home-ownership. Here we look at the limitations of subsidies. • In terms of **feasibility**, this measure may not be feasible for governments with high fiscal debts. To grant subsidies the government will have to increase income tax to finance the subsidies and this may discourage work and investment in the country. • **In terms of effectiveness,** subsidies will allow the market to still operate according to market forces to increase production or increase consumption. However, results are uncertain as producers and consumers can still make a choice. Low income households may still find the price of the HDB after subsidies high and may not be able to purchase the flats as compared with higher income households.	EV2: evaluate policy
	R 2: Another alternative measure may be better than subsidies such as providing tax incentives to house building firms. • The government can either reduce indirect tax to assist construction firms to reduce COP in order to increase the firms' ability to produce. As such, the supply for houses will increase, illustrated by a rightward shift of the supply curve from S0 to S1.	A1/2: Topic Sentence
	 	CD4: Diagram
	• After an increase in supply from S_0 to S_1 in Fig 18, ceteris paribus, the Quantity Demanded is at Q_0 and Quantity Supplied is at Q_2 at the original equilibrium price Po. This creates a surplus of Q0Q2 at the initial price P0. • The surplus would exert downward pressure on price. In response to the fall in price, consumers will increase their quantity demanded and producers will reduce the quantity supplied according to the Laws of Demand and Supply respectively. • The adjustment process continues until the new equilibrium P1 and Q1 is reached where Qd equals to Qs at Point E. Therefore, a rise in supply for a good, ceteris paribus, will cause a fall in equilibrium price and a rise in equilibrium quantity. As the	CD2: Explain how tax incentives to producers work to increase Qe C4: refer to graph when

	equilibrium quantity has increased from Q0 to Q1, the homeownership has risen. **E2: Limitations of tax reductions:** • In terms of **feasibility**, reduction of tax may not be feasible. The reduction in tax leads to a fall in tax revenue and therefore the government will have less funds to spend on other development projects. • In terms of **effectiveness**, reduction in tax can be ineffective. The demand for homes is price inelastic because the degree of necessity is high. Thus a fall in price as a result of tax reduction will lead to a less than proportional increase in quantity demanded and thus Qe may not increase significantly unless there is a significant reduction in tax. **Conclusion: Stand and justification** Stand: Overall, subsidising the purchase of affordable housing is likely to be more effective in increasing homeownership. Substantiation: As mentioned above, some low-income households may still be unable to afford housing even after receiving subsidies, governments can improve the effectiveness of this policy through means-tested subsidies. However, this limitation may not be that significant through some adjustments in the policy. By providing larger subsidies to lower-income households and smaller subsidies to higher-income households, housing affordability can be increased for those facing the greatest barriers to home ownership.	explaining PAP EV3: Stand EV4: Weighing – Play down previous limitation mentioned