Q.33

How to lower the rising housing costs is an issue of concern to the United States government.

Source A: Data of the Consumer Price Index (CPI) of the United States

*The Consumer Price Index measures housing costs based on rent levels rather than home prices.

(Source: U.S. Bureau of Labor Statistics)

Source B: Weights of different expenditure categories in the Consumer Price Index of the United States in March 2022

	Weight
Food	13.361%
Energy	8.295%
All items less food and energy	78.344%
- Shelter	32.452%
- Medical care services	6.881%
- Transportation services	5.673%
- Others	33.338%

(Source: U.S. Bureau of Labor Statistics)

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Source C: A news excerpt about the measures of the United States government to lower housing costs

In May 2022, the United States government suggested various measures to lower the costs of housing, including: - relaxation of land use restrictions to allow for higher density housing - provision of tax relief for low-income households buying houses

(Source: various newspapers)

Source D: Some views on housing costs in the United States

 A city planner	High housing costs have forced many people to live in remote areas, making commuting times longer and worsening the problem of traffic congestion.
 A property developer	The rising construction costs have shrunk developers' profits, and we have had to shift part of the cost to consumers. We should think about how to lower construction costs.
 A property market analyst	A higher rent level will attract investors to buy houses for lease.

Questions

(a) Refer to Sources A and B. Explain why housing costs may be regarded as one of the major sources of the increase in the Consumer Price Index of the United States. (Assume the weight of shelter in the Consumer Price Index is fixed.) (2 marks)

(b) Refer to Source C. Which basic economic problem is the relaxation of land use restrictions related to? Explain. (2 marks)

(c) Refer to Source C. Explain how the tax relief mentioned would affect the *aggregate demand* and *equity* of the United States. (5 marks)

(d) Refer to the city planner in Source D. Explain why high housing costs may lead to a divergence between private and social costs. (3 marks)

For part (e), candidates are required to present their answer in essay form. Criteria for marking will include use of sources and economic theories, relevant content, logical presentation and clarity of expression.

(e) Suppose the government has two strategies to lower the housing costs of households.

Strategy I: To provide rent assistance to households
Strategy II: To collaborate with the private sector to promote innovation in construction technology

With reference to the above sources and your own knowledge in Economics, discuss which strategy, strategy I or II, the government will prefer in order to achieve **EACH** of the following policy objectives respectively.

Objective 1: to lower the rent level
Objective 2: to reduce the shortage of houses
Objective 3: to increase aggregate output

(14 marks)

(Use a separate paragraph to compare the effects of the two strategies on each policy objective.)

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