

# 7

# Housing

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## PURPOSE

This chapter, which is a continuation of the chapters that focus on equity issues, addresses the issue of U.S. housing policy. It is certainly important to our students, whether they are current homeowners or renters (including dormitories) or potential homebuyers. Any nontraditional students who have purchased homes can probably add greatly to the discussion. As background, perhaps necessary for younger students, Appendix 7-1 presents material on the mechanics of buying, i.e., affording a house. The subprime mortgage crisis of 2008–2009 is analyzed; along with public housing and various types of housing subsidies. The chapter introduces the concept of price ceilings with the example of rental ceilings, and Appendix 7-2 presents other examples of price ceilings. The problems of residential segregation and homelessness are also covered.

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## LEARNING OBJECTIVES

Our learning objectives for this chapter are:

1. to enable the student to analyze housing price differentials using supply and demand.
  2. to help the student analyze the factors affecting the affordability of homeownership.
  3. to inform the student about U.S. government policy promoting homeownership.
  4. to show the student how rental ceilings distort housing markets.
  5. to enable the student to analyze government programs to house low-income families, such as public housing, subsidies to developers, and housing (rental) vouchers.
  6. to illustrate to the student the problem of housing segregation and its important socioeconomic ramifications.
  7. to discuss the problem of homelessness with the student.
  8. to help the student distinguish between the economic conservative and liberal viewpoints on housing policy.
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## LECTURE SUGGESTIONS

- Contact local realtors for estimates of the average sales prices of new and existing homes in your region. Compare this with data from other markets in which housing is either significantly higher or lower. Consider the factors that may contribute to these differences.
- Draw supply and demand curves for housing. Then analyze the effects of a new industrial park, a plant closing, the expansion of a nearby city, etc., on the graph. If there are measurable trends occurring in your vicinity, talk about them. You know the slogan: the three most important factors in real estate are location, location, location!
- Assign students to research the subprime mortgage crisis. What actions were taken or not taken by people in the financial industry and the government to make the crisis worse? What reforms have been proposed or approved?

- Young students tend to be concerned about housing the poor. They are, however, extremely uninformed about policy options. Therefore, emphasize the gainers and the losers from various policies. Also talk about targeting the benefits of public programs and the efficiency of these programs. Our students, like the rest of the public, do not know the ramifications of rental ceilings.
- Young students are surprised to learn the extent of segregation that still exists in the U.S. In this, their viewpoints mirror much of our society in thinking that segregation has been eliminated since the Civil Rights movement. Please stress the continued seriousness of the issue and its ramifications for education and employment.
- Among the various issues involving the poor, students do seem very concerned about homelessness. Yet, they harbor stereotypical notions about the homeless: that they choose to be homeless or that they are alcoholics, addicts, or mentally ill. Please stress the rising significance of homeless families with children.
- You may want to encourage your students to rent the DVD, *The Pursuit of Happyness*, which portrays a somewhat realistic example of homelessness (but a fairly unrealistic outcome).
- You may wish to use the appendix material in your lectures. This involves price ceilings for football tickets, gasoline, interest rates, and others. You may also wish to include the idea of price ceilings on pharmaceuticals, since pharmaceutical drugs are discussed in Chapter 8 on healthcare.

## ADDITIONAL DISCUSSION AND ACTION QUESTIONS

Some of the following discussion questions may be helpful in preparing lectures.

1. Use supply and demand graphs to explain how the following factors would affect the market for housing in a relatively isolated community.
  - a. A local plant (and major employer in the town) closes.
  - b. A new highway is built, which makes it much easier to commute to a nearby city.
  - c. The town's schools are recognized for providing an excellent education.
2. How might the existence of the mortgage interest deduction affect the purchase of a home? What about two homes?
3. How do rental ceilings interfere with the rationing function of price? Discuss this using the following demand and supply data for rental housing. Assume that a rental ceiling of \$400 is established by the local government.

<u>Quantity Demanded</u>	<u>Monthly Rent</u>	<u>Quantity Supplied</u>
200	\$1,000	800
400	800	700
600	600	600
800	400	500
1,000	200	400

## SOME ANSWERS AND COMMENTS ON THE TEXT DISCUSSION AND ACTION QUESTIONS

1. Rental ceilings cause shortages of rental housing. They also often cause illegal markets in housing to develop. Because the market does not ration away the shortage, landlords can be choosy in whom they rent to. This can lead to greater discrimination against some groups. In the longer run, rental units are less likely to be kept up and may even be abandoned. The major beneficiaries of rental ceilings are the tenants who are in the units when the ceilings are imposed and later tenants who are lucky enough to get into the units. They are usually not the poor. Landlords may charge very high damage deposits, and tenants may sublease the unit at a higher rent.
2. Student answers will vary, but should demonstrate economic analysis.

3. The construction industry and the poor families who are lucky enough to get into the public or subsidized housing.
4. Very poor families receive most housing vouchers. The vouchers cover the difference between fair market rent and 30 percent of the tenant's income. Given limited funding, some economists prefer demand-side subsidies because they can lead to increases in the supply of low-income housing.
5. We do subsidize all these groups.
6. Either is a legitimate position, but it is a good idea to know where you stand and why.
7. Each of us must answer these questions for ourselves. We might, however, be shocked by our answers.
8. Student activity.
9. Student activity.
10. Student activity.
11. Student activity.
12. Student answers will vary.

*(Appendix 7-1)*

1. The family's income, debt, monthly payments, available cash for the closing costs.

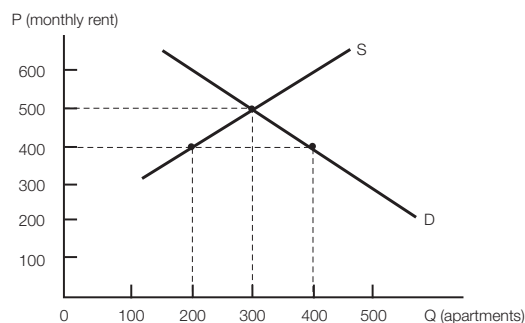
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## SUGGESTED TEST QUESTIONS

### *Multiple-Choice Questions*

1. The city council of River City imposes rent controls in order to stop the increase in rent that has occurred over the past year. Results of this action may be:
  - a. a decreased likelihood of discrimination in the housing market.
  - b. a shortage of rental units.**
  - c. a surplus of rental units.
  - d. All of the above
2. Government provides housing subsidies to middle- and upper-income families by:
  - a. allowing them to live in public housing projects.
  - b. allowing families to deduct mortgage interest payments from income that is assessed for income tax purposes.**
  - c. issuing rental vouchers to them.
  - d. providing zero-interest loans.
3. Which of the following is true of public housing programs?
  - a. Management is usually better than in the private sector.
  - b. They often result in a high concentration of low-income individuals within certain areas of a city.**
  - c. They are generally better maintained than private sector units.
  - d. All of the above
4. Government data indicate that since 1985 the median price of housing has generally:
  - a. increased, but median household income has increased faster.
  - b. increased faster than median household income.**
  - c. decreased.
  - d. increased at the same rate as the median household income.

5. Subsidies to developers increase the supply of rental housing units by:
- building new rental units that are then sold to a public housing authority.
  - guaranteeing developers a fair market rent on units constructed and rented to low-income families.**
  - giving tenants rent vouchers.
  - establishing rental ceilings.
6. Assume that the fair market rent on a modest apartment in River City is \$500. A low-income family that earns \$1,000 a month and qualifies for the housing (rent) voucher program must spend 30 percent of its income on rent. If the family rents a two-bedroom apartment for \$500, what would its subsidy be:
- \$210.
  - \$240.
  - \$200.**
  - \$150.
7. An argument for demand-side housing subsidies instead of rental ceilings, public housing, or subsidies to developers is that:
- the benefits of demand-side subsidies are more certain to go to low-income families than with the other programs.
  - demand-side subsidies encourage an increase in the quantity supplied of private low-income housing, but public housing seems to decrease the quantity supplied of private sector low-income housing.
  - demand-side subsidies seem to lead to better maintenance of private housing units.
  - All of the above**
8. With regard to race, Suburb A has an index of dissimilarity of 20, while City A has an index of dissimilarity of 75. This means that:
- City A is less racially segregated than Suburb A.
  - City A is more racially segregated than Suburb A.**
  - neither the city nor the suburb is segregated.
  - both the city and the suburb are extremely segregated.
9. Critics of public housing argue that it:
- often concentrates poverty into certain areas of a city.
  - benefits the construction industry at least as much as low-income families.
  - is difficult for poor families to move into because waiting lists are so long.
  - All of the above**
10. Some of the factors contributing to homelessness are:
- the de-institutionalizing of the mentally ill.
  - unemployment.
  - gentrification of low income housing.
  - All of the above**
11. Assume that the local government puts a rental ceiling of \$400 on the housing market below. What would be the effect?
- more poor families can rent apartments
  - a surplus of 200 apartments
  - a shortage of 200 apartments**
  - a shortage of 100 apartments



12. Rapidly growing economies tend to affect housing markets in which of the following ways?
- Supply decreases, and the price of housing plummets.
  - Demand increases, and the average price of a house rises.**
  - Demand increases, and the average price of a house decreases.
  - Supply may shift, but not demand.
13. The two groups that benefit most from public housing are:
- public housing authorities and developers.
  - the construction industry and low-income residents.**
  - low-income families and bureaucrats.
  - landlords and low-income families.
14. Criticisms of public housing include:
- public housing concentrates poverty.
  - public housing is an expensive policy to house low-income families.
  - public housing displaces private sector housing.
  - All of the above**
15. Assume that a major employer in an isolated community goes out of business. What effects on the local housing market would you expect to see?
- The average price of a home would increase due to a decrease in demand.
  - The average price of a home would decrease due to a decrease in demand.**
  - The average price of a home would not change, but many houses would be vacant due to a decrease in demand.
  - This would not affect the town's housing market.
16. Rental ceilings may have which of the following effects?
- They cause housing shortages.
  - They increase the likelihood of discrimination.
  - They cause landlords to decrease maintenance and upkeep on rental units.
  - All of the above**
17. Assume that your city has the following two districts. The percentage of African Americans and white Caucasians are as shown. What is the index of dissimilarity?

<u>District</u>	<u>% African American</u>	<u>% Caucasian</u>
A	40	60
B	80	20

- a. 10      b. 20      c. **40**      d. 60
18. Generally, liberals believe that:
- the federal government should be involved in housing markets.**
  - public housing units should be transferred to the private sector.
  - subsidies to the construction industry should be eliminated.
  - the government should have less involvement of no involvement in housing markets.

*(Appendix 7-2)*

19. A perfectly inelastic supply curve means that:
- the quantity available does not change regardless of price.**
  - the price of a good doesn't change, regardless of what happens to the quantity supplied.
  - a price ceiling will result in a surplus.
  - All of the above

***True-and-False Questions***

1. The median price of new housing has generally risen less rapidly than median household income since 2000. (F)
2. From 1940 to 2000, inflation adjusted median rent has increased. (T)
3. Rental ceilings cause shortages of housing. (T)
4. Rental ceilings decrease the likelihood of discrimination in housing markets. (F)
5. A criticism of public housing is that it displaces private housing. (T)
6. A housing (rent) voucher pays the difference between the fair market rent on an apartment and 30 percent of the low-income family's income. (T)
7. An advantage of demand-side, rather than supply-side, housing subsidies is that they actually increase the private supply of low-income housing. (T)
8. The extent of housing segregation is measured by the index of dissimilarity. (T)
9. Housing segregation has been virtually eliminated in the United States. (F)
10. The mortgage interest deduction is a subsidy that goes mainly to low-income families. (F)
11. The introduction to the chapter suggests that housing is a basic need and a basic right. (T)
12. Data in 2017 reveals that home ownership rates are much higher for non-Hispanic whites than for racial and ethnic minorities. (T)
13. Mortgage insurance protects the lender if the borrower defaults on the mortgage loan. (T)
14. Expenses that are paid at the time that a loan is finalized and the title is conveyed to the buyer are called closing costs. (T)
15. There is one uniform housing market in the United States. (F)
16. Urban renewal and gentrification have decreased the supply of affordable housing for low-income U.S. families. (T)
17. Large shares of African Americans and Hispanics live in central cities, yet they make up small shares of the population in suburbs. (T)
18. Residential segregation contributes to problems of unequal access to jobs and education. (T)
19. The amount the government spends on housing assistance for low-income people is larger than the value of the mortgage income deduction. (F)
20. A major U.S. housing problem is that of affordability. (T)
21. The share of owner-occupied housing is now higher than in 1960. (F)
22. The homeownership rate of African Americans is well below the national average. (T)
23. "Redlining" is the practice of denying mortgages in certain minority neighborhoods. (T)
24. "Gentrification" is the conversion of low-cost apartments into middle- and upper-middle-income housing. (T)
25. Racial segregation continues to be a serious problem in the U.S. (T)
26. Economists generally conclude that rental ceilings are an ideal form of policy intended to help low-income renters. (F)
27. Donald Trump has sought to increase government funding for low-income housing assistance. (F)

**(Appendix 7-1)**

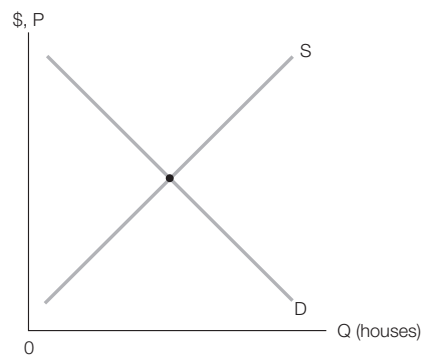
28. Closing costs are payments made at the time of purchasing a home. (T)
29. Usury laws are a legal limit on the amount of the interest rate charged when borrowing money to buy a home. (T)
30. An ARM is an associated retirement mandate. (F)

**(Appendix 7-2)**

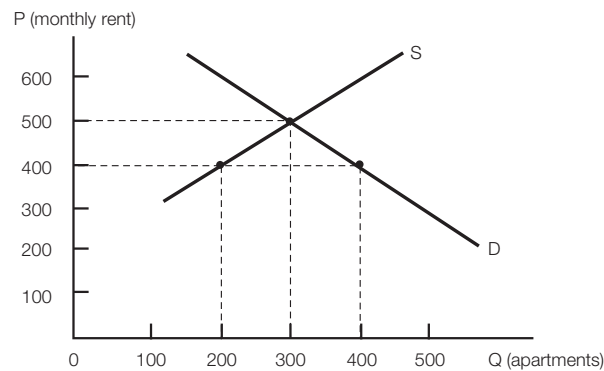
31. An interest rate ceiling results in a shortage of loanable funds. (T)

**Short-Answer Questions**

1. Consider the local market for housing below. Show the shift caused by a major employer closing its factory in this town. (**shift the demand curve backwards**) What will be the effect on price? (**decrease**) on quantity? (**decrease**)



2. What would be the effect of a rental ceiling of \$400 in the market below? (**shortage of 200 apartments**) Show on the graph and explain how the rental ceiling would interfere with the rationing function of price. (**If rent could increase to \$500, the quantity supplied would increase to 300 and the quantity demanded would decrease to 300. The shortage would disappear and the market would clear.**)

**Critical Thinking Question**

How are housing problems related to the problems of discrimination, poverty, unequal access to quality education, and unemployment discussed elsewhere in the text.

## INTERNET RESOURCES

**<http://www.nationalhomeless.org>**

(This is the site of the homeless advocacy group, the National Coalition for the Homeless.)

**<http://www.hud.gov>**

(This is the Housing and Urban Development site. It has good links to other housing sites.)

**<http://www.realtor.com>**

(This site includes information on housing prices in various localities.)

**<http://www.cbpp.org>**

(This Center on Budget and Policy Priorities site presents numerous recent studies on U.S. housing policies, as well as many other policies.)

**<http://www.usmayors.org>**

(This site provides information from the U.S. Conferences of Mayors on housing and other socioeconomic issues.)