

**Q.33**

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| Topic:                                      | The issue of high housing costs in the United States   |
| Relevant economic topics:                   | The three basic economic problems, demand and supply, divergence between private and social costs, equity, aggregate demand and aggregate supply |
| Types of material:                          | Line graph, statistical table, news excerpt, opinions  |
| Question design:<br>(total marks: 26 marks) | Elementary-level questions (12 marks); Advanced-level questions (14 marks)   |

- (a) Housing costs account for more than 30% of the CPI (from Source B), and both housing costs and the CPI show an upward trend (from Source A). (2 marks)
- (b) ‘What to produce’: Relaxation of land use restrictions determines the type of housing (higher density housing) to be built. (2 marks)
- (c) With the tax relief, disposable incomes of low-income households would increase. Private consumption expenditure would increase, and aggregate demand would increase. (3 marks)  
 Equalising income: The tax payments paid by the low-income households would decrease while the high-income households could not benefit from the tax relief, thus narrowing the income gap between the high-income and the low-income households. (2 marks)
- (d) According to the city planner, high housing costs have worsened the problem of traffic congestion. New drivers using the roads would have adverse effects on other drivers without paying compensation to the parties being affected. These adverse effects can be viewed as an external cost, which the new drivers would not consider when making their driving decisions. (3 marks)

(e) Marks awarded for effective communication (EC: max 2 marks)

| Marks | Performance  |
|-------|--|
| 2     | <ul style="list-style-type: none"> <li>● Arguments supported with the source/data and appropriate economic theories</li> <li>● Relevant materials presented</li> <li>● Well-organised and coherent answers presented without repetition of ideas</li> <li>● Ideas clearly and fluently expressed with appropriate use of language/words/terms/symbols</li> </ul>     |
| 1     | <ul style="list-style-type: none"> <li>● Arguments presented with some support of the source/data and economic theories</li> <li>● Some irrelevant materials presented</li> <li>● Answers presented in a less organised way with some repetition of ideas</li> <li>● A clear message conveyed with some inappropriate use of language/words/terms/symbols</li> </ul> |
| 0     | <ul style="list-style-type: none"> <li>● Arguments presented with no support of the source/data and economic theories</li> <li>● Materials unrelated to the gist of the question presented</li> <li>● Inconsistent arguments presented</li> <li>● Limited ideas expressed with inappropriate use of words/terms/symbols</li> </ul>                                   |

The maximum marks for content is 12 marks. Answers may include the following:

Objective 1

- Strategy I will increase the demand for rental units, causing the rent level to increase.
- Strategy II will lower the construction cost of houses and increase the supply of houses. When the supply of houses increases, more rental units will be available, causing the rent level to decrease.
- The government will prefer Strategy II as it can better achieve the objective of lowering the rent level.

Objective 2

- Strategy I will increase the demand for rental units, causing the rent level to increase. This will raise investors' demand for houses and increase the shortage of houses.

- Strategy II will lower the construction cost of houses and increase the supply of houses. The shortage of houses can be reduced.
- The government will prefer Strategy II as it can better achieve the objective of reducing the shortage of houses.

### Objective 3

- Strategy I involves a transfer payment which will increase households' disposable income. Private consumption expenditure will increase. Aggregate demand will increase. In the short run, aggregate output will increase. However, Strategy I will not affect the productive capacity of the United States. In the long run, aggregate output will not be affected.
- Strategy II will lower the construction cost of houses, and the short run aggregate supply will increase. In the short run, aggregate output will increase. Strategy II will increase the productive capacity of the United States. The potential output level will increase. In the long run, aggregate output will increase.
- The government will prefer Strategy II as it can better achieve the objective of increasing aggregate output.