Supply curve for housing estimated to be fairly elastic for most urban areas

Elastic supply: quantity supplied is responsive to price changes

Housing found to be elastically supplied

Price

Quantity

S

D1

D2

Elastic supply

Price

Quantity

S

D1

D2

Inelastic Supply

If housing supply elastic: An increase in demand primarily results in greater housing supplied

If housing supply inelastic: Increase in demand mainly increases housing price, little change in housing supplied

Housing supply may become more inelastic if it becomes more difficult to build new housing as housing expands (congestion, land prices increase, zoning regulations etc.)

Housing can be increased either by converting non-housing structures into housing or constructing new housing

New housing will be built only if market price is above the cost of building housing

A 1200 sq. ft. house is estimated to cost $97,794 to construct in 2000 on average

If market price of housing fall below cost of building one no new housing will be built

Housing supply elastic only above minimum cost of constructing new house:

Price

Quantity

S

Construction. Cost\*

Q\*

New housing built only if market price for new housing above construction cost

Over past 50 years many cities in midwest and northeast declined in population

Cities in south and west grew

Tight relationship between number of houses in an area an total population

Example if an area increases population by 10% it will also increase its housing stock by 10%

A constructed house lasts many years

If the demand curve for housing stays below the kink, housing will remain at Q\*

Average house prices have been found to be below construction costs (example, Philadelphia, Buffalo, Detroit)

A certain small percentage of housing becomes unlivable every year;

Q\* in these cases will marginally decline each year

Price

S

D1

D2

Con. Cost\*

Quantity

D0

Q\*

If demand increases from D0 to D2, prices might increase a somewhat, but more housing will be built

If demand decreased from D0 to D1, no new housing will be built but the price of housing may fall dramatically

Changes in housing demand can be caused by a change in demand for local labor; or change in demand for cold weather

Hypotheses that arise from analysis:

1. Because housing can be quickly built, growing cities may grow very quickly; because housing is durable, declining cities will decline very slowly.
2. Declining cities will experience relatively large decreases in housing prices, but relatively small changes in the housing stock or population size.
3. Growing cities may experience large changes in the housing stock and population but small changes in prices.
4. Past population changes will more closely predict future changes for a declining city than a growing city.
5. The proportion of the highly skilled may rise in growing cities but fall in declining cities.