SECTION B

Read the following Figures (1 to 2) and Extracts (A to B) before answering Question 6.

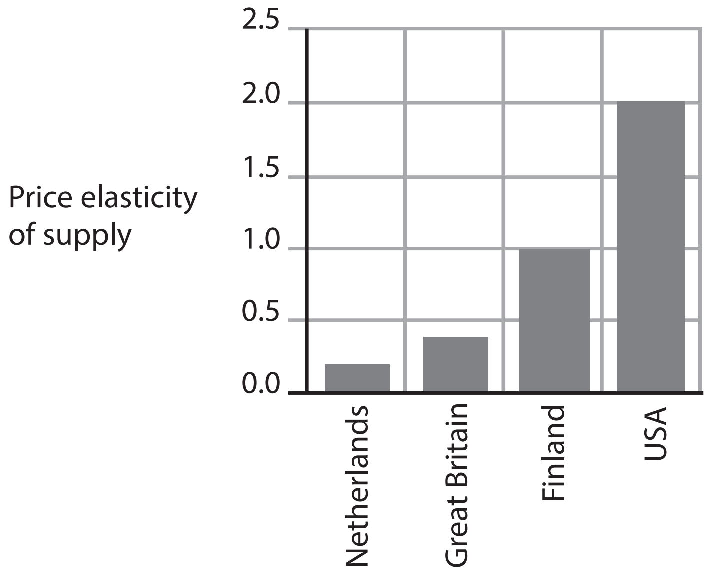
Answer ALL Question 6 (a) to 6 (e) and EITHER Question 6 (f) OR Question 6 (g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

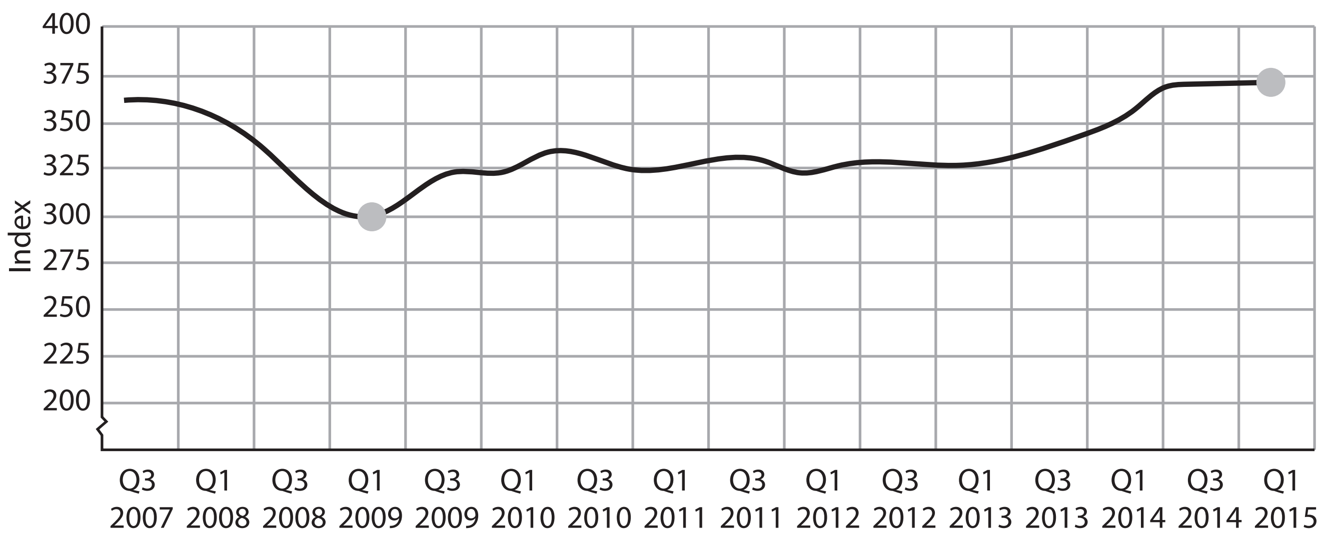
The market for housing

Figure 1 – Estimates of the price elasticity of supply of new housing, selected countries



(Source: adapted from Caldera Sánchez, A. and Å. Johansson (2011), "The Price Responsiveness of Housing Supply in OECD Countries", Figure 3, OECD Economics Department Working Papers, No. 837, OECD Publishing. http://dx.doi.org/10.1787/5kgk9qhrnn33-en)

Figure 2 – Index of UK house prices (1993 = 100)



(Source: http://www.nationwide.co.uk/about/house-price-index/download-data#~)

Extract A

Problems facing UK first time buyers

Over a third of aspiring first time buyers in the UK have given up hope of ever being able to save for a deposit to buy a property, new research has found. A deposit is the minimum amount that must be paid upfront when buying a property, which is a proportion of the price of the property.

The UK Government has a Help to Buy scheme designed to help people buy a home. The government subsidises the mortgage (loan) needed to buy a property, so buyers require a smaller amount saved as a deposit. Under this scheme, first time buyers need as little as a 5% deposit to qualify for a mortgage. This is due to end in the first few months of 2017. The research from mortgage insurer Genworth says this will mean a return to 20% deposits, which would see the average time needed to save for a deposit rise from three years to over 10 years.

"Trying to buy your first home in the current climate is like chasing a runaway train. Even with good salaries that could comfortably support a mortgage, thousands of aspiring first time buyers can only save modest sums, especially those who are already paying rent. This deposit trap is why many feel they are left with the all or nothing choice of borrowing from family or waving goodbye to ever owning a home," said Simon Crone, a vice president at Genworth.

"Help to Buy has significantly improved access to mortgages with deposits that are actually realistic to save. The numbers using the scheme may be modest, but it has made significant inroads in the short-term to boost access at the lower end of the property market," he pointed out.

(Source: adapted from http://www.propertywire.com/news/europe/uk-first-time-buyers-201409309641.html September 2014)

Extract B

Housing and flood defences

A radical new approach to housing and a £2.3 billion of investment in flood defences were announced as part of the UK Government's new National Infrastructure Plan 2014.

One key proposal is for the government to plan, build and sell homes. An initial programme on a government-owned former airfield near Cambridge will see the development of 10 000 homes. This approach will fast track the development by providing certainty and making new homes available more quickly.

The government will make the initial investment but expects that later costs will be met through the sale of land and homes. It will also evaluate the feasibility and economic effects of rolling out this model on a wider scale, to support and accelerate housing supply.

The plan also commits to £2.3 billion of capital investment to over 1400 flood defence projects in a 6-year programme of investment. As a result, over 300 000 homes will be better protected and over £30 billion of economic damages prevented. Major projects that will benefit include £42 million for the Oxford Flood Alleviation Scheme, £80 million for the Humber Estuary and over £17 million for Tonbridge, Yalding and the surrounding communities.

(Source: adapted from https://www.gov.uk/government/news/ambitious-plans-for-housing-flood-defence-and-roads-set-out-in-national-infrastructure-plan-2014)