

## **Economics SIL year 12 – 13**

The purpose of the SIL work is to ensure that you are prepared for a good start to second year Economics by reviewing key topics for Paper1.

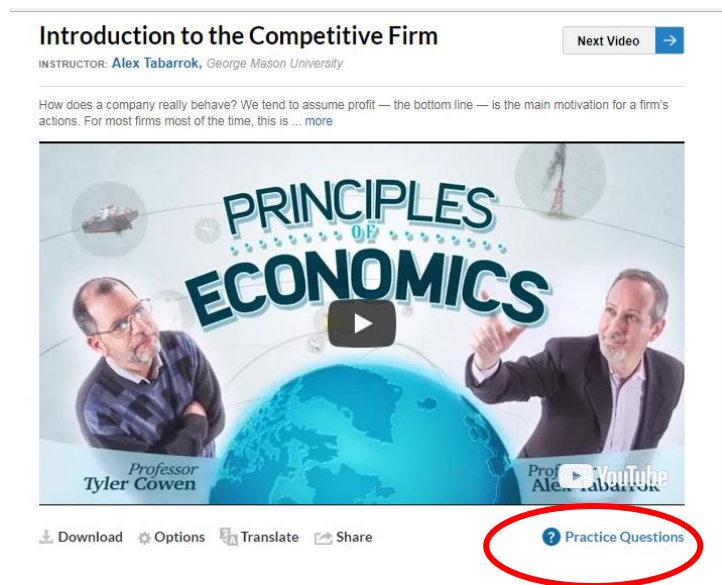
**Focus of the work:** Theory of the Firm and Market Failure.

### **Tasks:**

**Task 1** View each video clip (12 links below) and make brief revision notes. Answer the practice questions to test yourself. You can access the videos by clicking on each hyperlink. You may need to play, pause and rewind.

The full set of online videos are hosted at:

<http://mruniversity.com/courses/principles-economics-microeconomics>



The screenshot shows a video player interface. At the top, the title is "Introduction to the Competitive Firm" with a "Next Video" button. Below the title, the instructor is identified as "Alex Tabarok, George Mason University". A short description reads: "How does a company really behave? We tend to assume profit — the bottom line — is the main motivation for a firm's actions. For most firms most of the time, this is ... more". The video thumbnail features the text "PRINCIPLES OF ECONOMICS" in large green letters, with a play button in the center. Two men, Professor Tyler Cowen and Professor Alex Tabarok, are shown in the thumbnail. Below the thumbnail, there are icons for "Download", "Options", "Translate", and "Share". A red circle highlights a "Practice Questions" button with a question mark icon.

Costs and Profit Maximization under Competition

- [Introduction to the Competitive Firm](#)
- [Maximizing Profit Under Competition](#)
- [Maximizing Profit and the Average Cost Curve](#)
- [Entry, Exit, and Supply Curves: Increasing Costs](#)
- [Entry, Exit, and Supply Curves: Constant Costs](#)
- [Entry, Exit, and Supply Curves: Decreasing Costs](#)

## Competition and the Invisible Hand

- [Minimization of Total Industry Costs of Production](#)
- [The Balance of Industries and Creative Destruction](#)

## Monopoly

- [Maximizing Profit Under Monopoly](#)
- [Office Hours: Calculating Monopoly Profit](#)
- [The Monopoly Markup](#)
- [The Costs and Benefits of Monopoly](#)

## Task 2

Revise these topics for an **initial assessment test** covering *Theory of the Firm* when you start the course in September. Review your micro booklets on these topics

3.1.3 Production, costs and revenue

3.1.4 Competitive and concentrated markets

You will need to know all of the diagrams.

## Task 3

Complete the Exam paper – Econ3 June 2015 – Housing market

( next page)

Study **Extracts D, E and F**, and then answer **all** parts of **Context 2** which follow.

**Extract D: Housing tenure in England, as a percentage of households, for selected years**

Housing tenure	2000	2010	2020*
Owner occupied, with a mortgage being repaid	43	35	29
Owner occupied, owned outright (no mortgage)	27	33	34
Social rented (from a council or housing association)	20	18	17
Private rented	10	14	20

Source: Official statistics, 2014

\* The figures for 2020 are projected from current trends

**Extract E: Housing tenure and externalities**

<p>Most Spaniards and Estonians live in flats, while most people in the UK and Ireland live in semi-detached houses. Housing markets are made up of different sectors or 'tenures' which describe the legal basis under which houses are occupied. Most of the population of the EU live in owner-occupied houses. Social housing is built or funded by the public sector and, in the past, the UK has been almost unique in Europe in providing such houses mainly through local councils. In France, this is done by not-for-profit organisations, similar to UK housing associations. About two-thirds of tenants across the EU pay a market price rent, while the rest receive some form of subsidy. In the UK, the concept of social housing has become complicated by the large number of private landlords whose tenants are receiving welfare benefits. While the UK government has moved away from rent controls, it has attempted to influence rents indirectly by capping housing benefits for low income tenants.</p>	1
<p>While housing has many of the characteristics of a merit good, externalities from housing can be positive or negative. Bad housing is often associated with crime, ill-health and other problems, and the opposite is true of good housing. Tenure can also be linked to externalities, for example, if poorly designed social housing, such as an inner-city block of flats, is compared with high-quality private housing in a prosperous area. Much depends on the quality of the build, the surrounding social conditions and the economic infrastructure.</p>	5
	10
	15

Source: News reports, 2014

**Extract F: Housing and inequality**

The EU Commission has said: 'Decent housing at an affordable price in a safe environment is a fundamental need and right. Ensuring this need is met, which is likely to alleviate poverty and social exclusion, is still a significant challenge in a number of European countries.' Housing inequality can result in part from income inequality and can, in turn, help cause wealth inequality. Most houses are bought using mortgages which are issued by banks and building societies on the basis of income. The UK's 'Right to Buy' policy, dating from the 1980s, makes a one-off redistribution of wealth from the state to low income families when tenants buy their council houses at a subsidised price. Regional and international differences enable some house owners to convert their housing assets into other forms of wealth. For example, someone who sells a former council house they have owned for 30 years in south-east England might release enough profit to be able to purchase a similar house in north-west England, or even two houses in Bulgaria, while still having cash left over.	1 5 10
In most EU countries, 'austerity' pressures on public finances can be expected to cause a further withdrawal by government from a direct role in housing. The financial crash of 2007 was made worse in Europe by excessive property speculation, particularly in the UK, Ireland and Spain. In future, many young British people will have to adopt the German tradition of renting rather than buying, unless they eventually inherit a house from their parents. This has major implications for many aspects of the economy, including the mobility of labour and the distribution of wealth. Moreover, in 2013, a government 'Help to Buy' scheme, intended to assist first-time buyers with their deposits, has also subsidised would-be landlords buying property to rent out. Yet the UK remains short of social housing and affordable private housing.	15 20

Source: News reports, 2014

**0 | 4**

In 2010, there were 6.91 million households in England who lived in rented accommodation.

Using **Extract D**, calculate to the nearest half million, the total number of households in England in 2010, **and** identify **one** significant point of comparison between the different housing tenures over the period shown.

**[5 marks]**

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Explain what is meant by the term 'externalities' (**Extract E**, line 12) **and** analyse how housing can create **both** positive **and** negative externalities.

**[10 marks]**

**0 | 6**

'In future, many young British people will have to adopt the German tradition of renting rather than buying, unless they eventually inherit a house from their parents. This has major implications for many aspects of the economy, including the mobility of labour and the distribution of wealth.' (**Extract F**, lines 17–20)

Should government intervene in the UK housing market, for example using subsidies, or leave the provision of housing to market forces? Using the data and your knowledge of economics, justify your answer.

**[25 marks]**