

Econ 2 - Lecture 2 - 4/2/25

Lecture 1 Quiz Released Later today } Chapters 2.4, 2.5
Due Monday at 12:30^{PM} on TopHat

Only one chance per question

Each question is worth 0.2% to 0.25% (up to 10% of total grade)

Discussion Week 1: Meet TA, Econ 1 Google Form Review

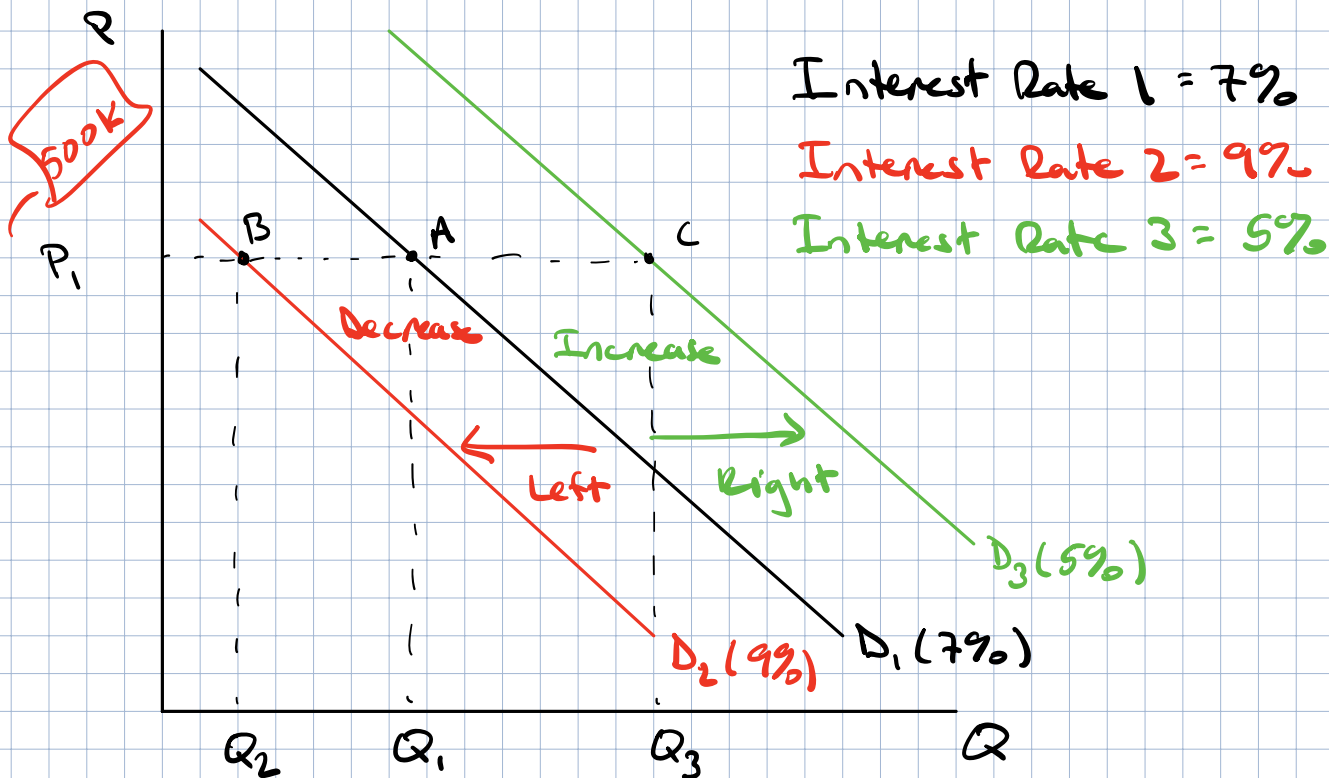
Discussion Week 2: Activity 1, Redfin Data Analysis

Weekly Review Session: Thursdays 5^{PM} & 6^{PM} NH 1110

In-class Questions → only alter value of quiz questions!

Today: Supply/Demand Review → Housing Market in 2007-2009

Last Class: Housing Demand

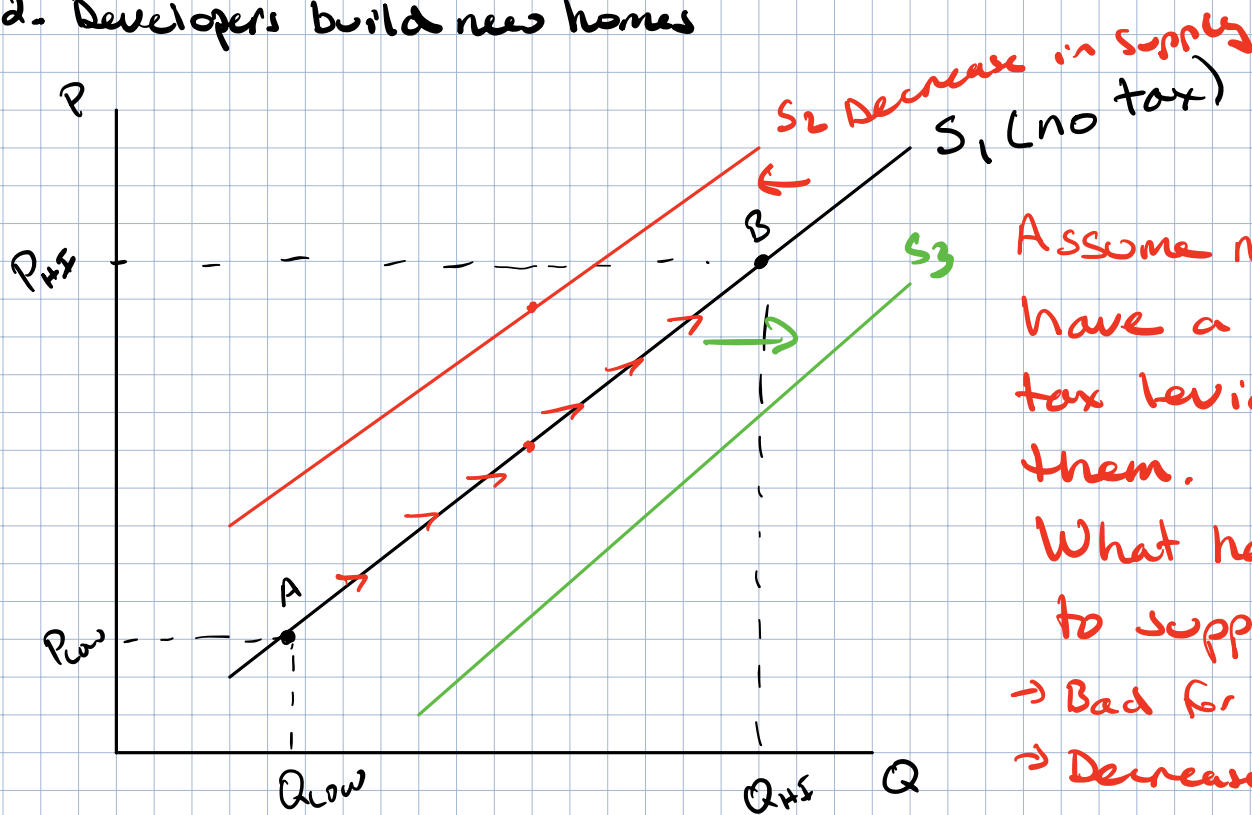


Same home price (P_1), but affordability influenced by interest rate.

Interest rate ↓, more households can afford Price = P_1 ,
↳ Q_1 to Q_3

Housing Supply

1. Existing homeowners, looking to move
2. Developers build new homes



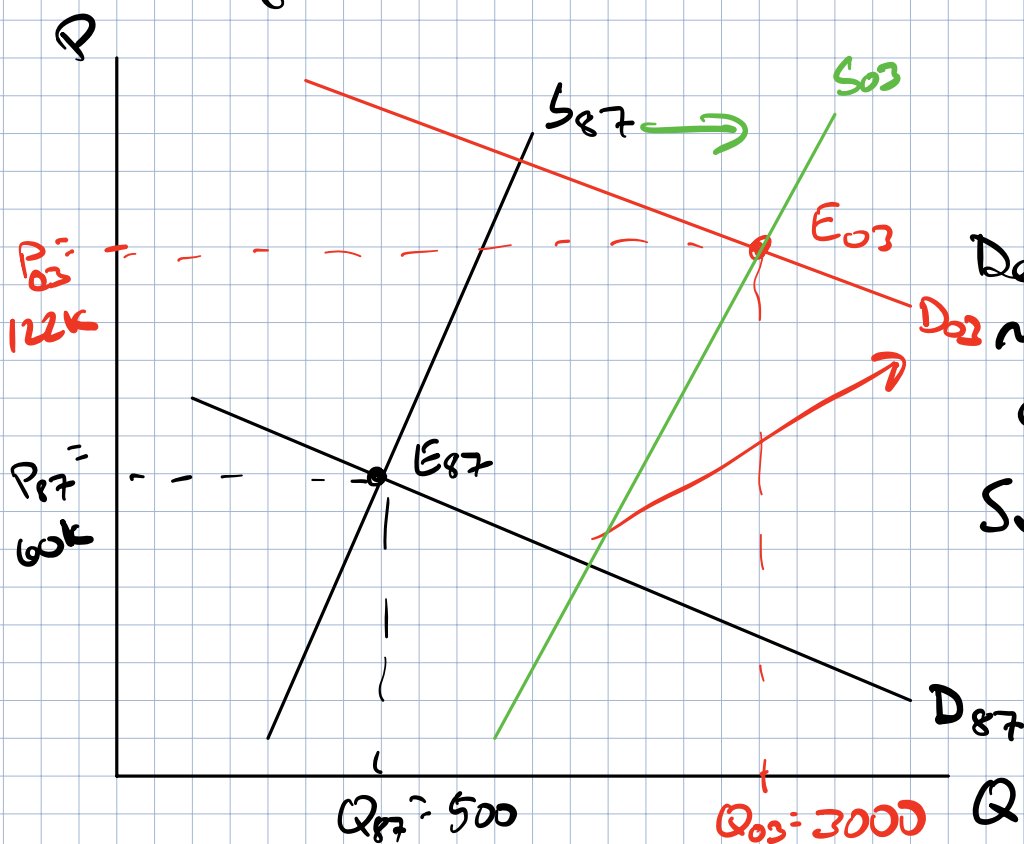
Assume new homes have a \$10,000 tax levied on them.

What happens to supply?

- Bad for suppliers
- Decrease in supply
- Shift Supply Left

Cost of Lumber Decrease → input cost
Increase Supply → Shift Right

Housing Market Equilibrium



Which curve
is more elastic?
More inelastic?

Demand is more
responsive to price
changes! **More elastic**

Supply is less
responsive!
less elastic

Start in 1987 in Las Vegas

$P_{87} = \$60K$, $Q_{87} = 500/\text{month}$

Prices double

Quantity $\uparrow\uparrow\uparrow$

By 2003 in Las Vegas

$P_{03} = \$122K$ $Q_{03} = 3000/\text{month}$

What could cause $P\uparrow$, $Q\uparrow$?

Demand must have shifted to right / increased!

$UE\downarrow$, Income \uparrow , Mortgage Rate \downarrow

Construction \uparrow

$D\uparrow$

$P\uparrow$ $Q\uparrow$

$S\uparrow$

$P\downarrow$ $Q\uparrow$

Overall Prices increase \rightarrow Demand increase is
greater than supply
increase.

Early 2000s: Home Prices Rising

Banks lending a lot of money

→ Bundling mortgages into securities

→ Banks incentive to create mortgage-backed security & sell to investment banker

→ Bank turns 600 K into 750K → lends out 750K to next set of home buyers

Banks offering

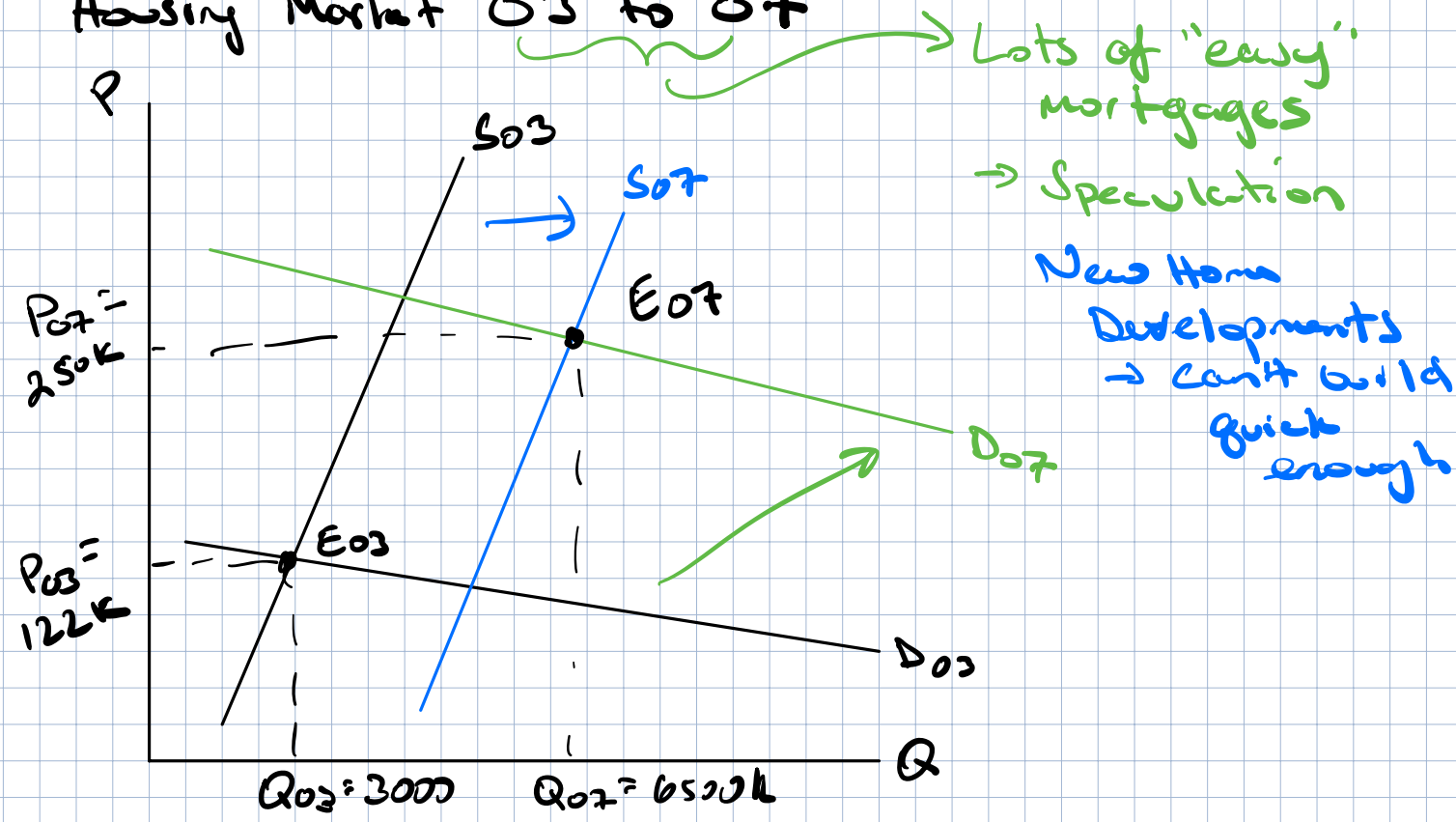
→ No down payment

→ Teaser interest rate → adjust to market in ~2 years

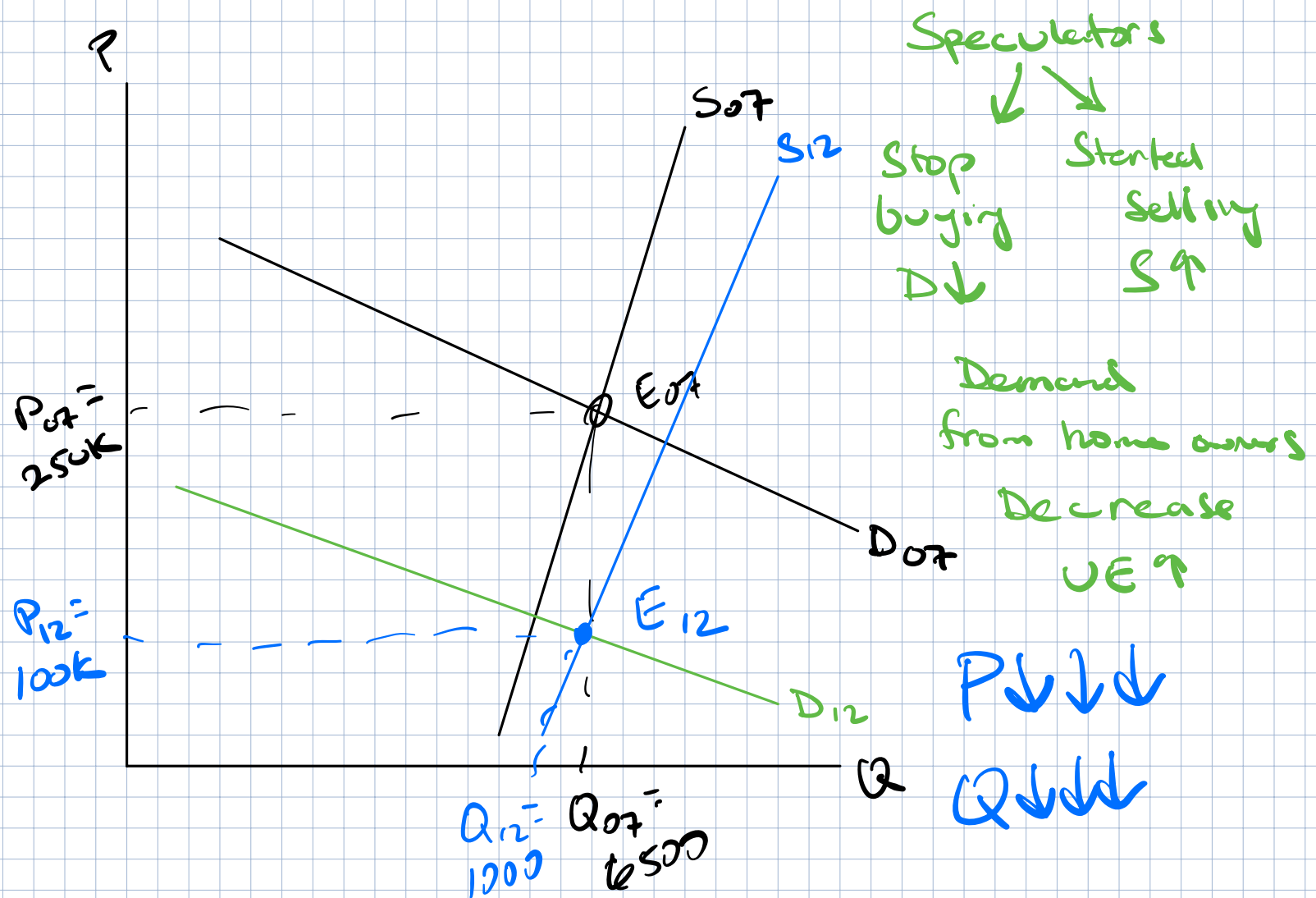
→ NINJA Loans

Speculating: Buying a home for the sole purpose of selling later (no use case)

Housing Market 03 to 07



By 2006, price growth slowed,
adjustable rate mortgage teasers ended,
a lot of homes had no down payments



Housing Market Today

$\frac{Y}{r}$	\underline{P}	\underline{Q}
2012	182K	4.8M
⋮	⋮	⋮
2019	291K	6.3M
⋮	⋮	⋮
2021	371K	7.2M
⋮	⋮	⋮
2024	428K	5.0M

