

GCSE

ECONOMICS

Papers 2 and 4

CASE STUDY

PRE-RELEASED MATERIAL FOR 2007 EXAMINATION

This material may be given to candidates at any time
after 1 January 2007.



1985/2 & 4/CS

INSTRUCTIONS TO TEACHERS

- The case study may be given to candidates at any time after 1 January 2007.

INFORMATION FOR CANDIDATES

- You **should** make yourself familiar with the case study before you take the question paper.
- You **must not** take notes into the examination.
- A clean copy of the case study will be given to you with the question paper.

This document consists of **8** printed pages.

HOME SWEET HOME

Introduction

Buying a house is the single most important purchase during most peoples' lives. Changes in house prices and their effects frequently make newspaper headlines, while property programmes have taken over from cooking and gardening as prime time TV favourites.

Although most people are concerned with the impact of the housing market on their own standard of living, the Government has to take account of the significance of the housing market for the performance of the economy as a whole.

Information on trends in the housing market can be found on a range of websites which include:

www.nationwide.co.uk www.cml.org.uk www.bbc.co.uk	www.hbosplc.com www.rics.org.uk http://society.guardian.co.uk	www.communities.gov.uk www.hometrack.co.uk www.tutor2u.net
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Fig. 1: Trends in house prices in the UK, Greater London and the North, 1990–2004

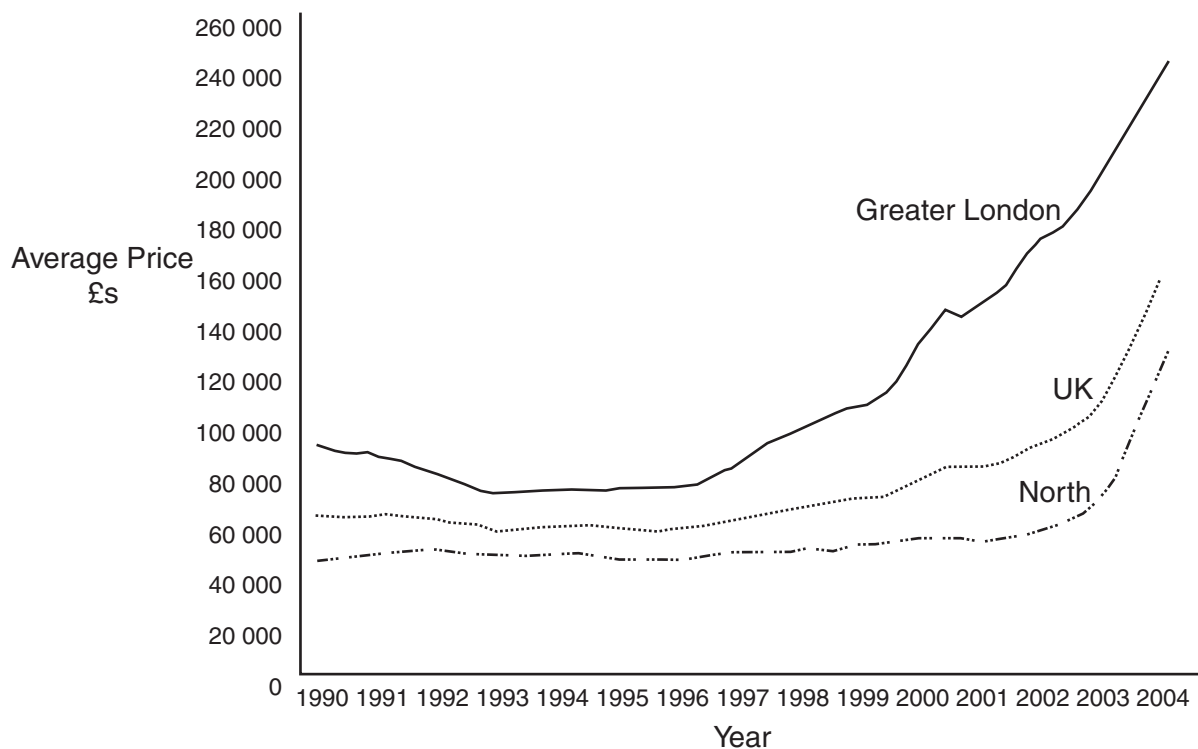


Fig. 2: Moving house and job

Unemployed workers in the North were asked to identify the most important obstacle which prevented them from moving to London, where jobs might be available.

A summary of their answers is given below.

Most important reason for not moving to London	% of respondents
Family links in the North	30
Price of houses in London	23
Disruption to children's education	12
Wrong skills for jobs in London	10
Cost of running a house in London	9
Lack of information about job opportunities	8
Cost of moving to London	8

Fig. 3: Record house price levels

In April 2005 the Halifax Bank, the largest mortgage lender in the UK, reported that the average price of a house in every region of the UK had topped £100,000 for the first time. Greater London became the first region to top £100,000 in 1997 and its average has since risen to more than £250,000.

The average price for the whole country stood at £162,840 in April 2005. With average annual earnings at £25,000 this meant that houses were getting beyond the reach of more and more people. This is compared with 1995 when the average house had cost £66,700 when average earnings were £19,600.

Those worst hit by these high prices were first-time buyers. It was calculated that a first-time buyer would need savings of £30,000 to buy a house. The result was that the number of first-time buyers was the lowest since 1981. The average age of first-time buyers was 34 years, the highest on record.

Some commentators said that the price of houses is too high. The alternative for most young people is to rent and hope to save for a deposit before getting on to the property ladder. This means that they risk missing the capital gains and positive equity available from a rising housing market.

Fig. 4: Changes in house prices and inflation, 1992–2004

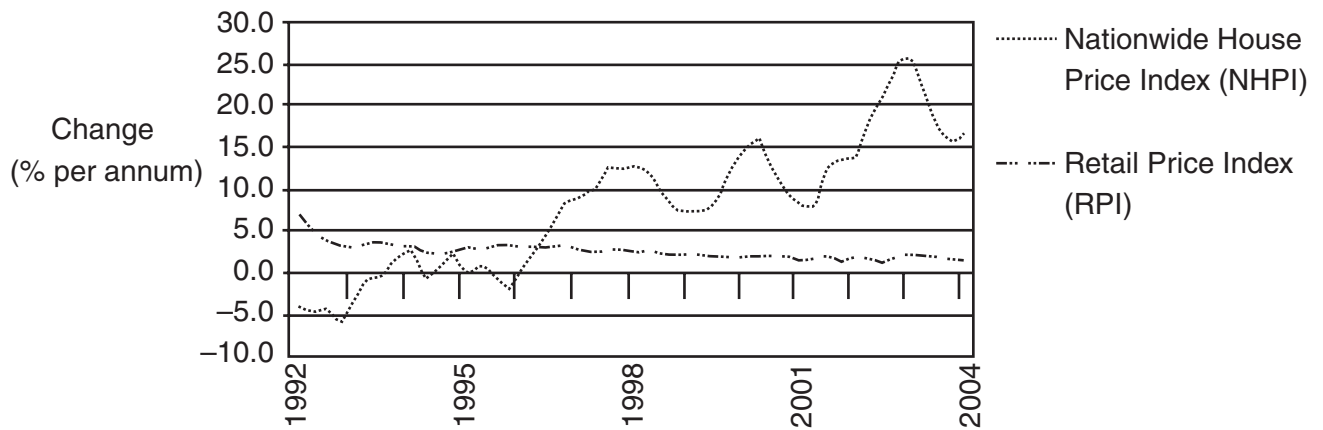


Fig. 5: The different forms of house tenure in the UK 1971–2001

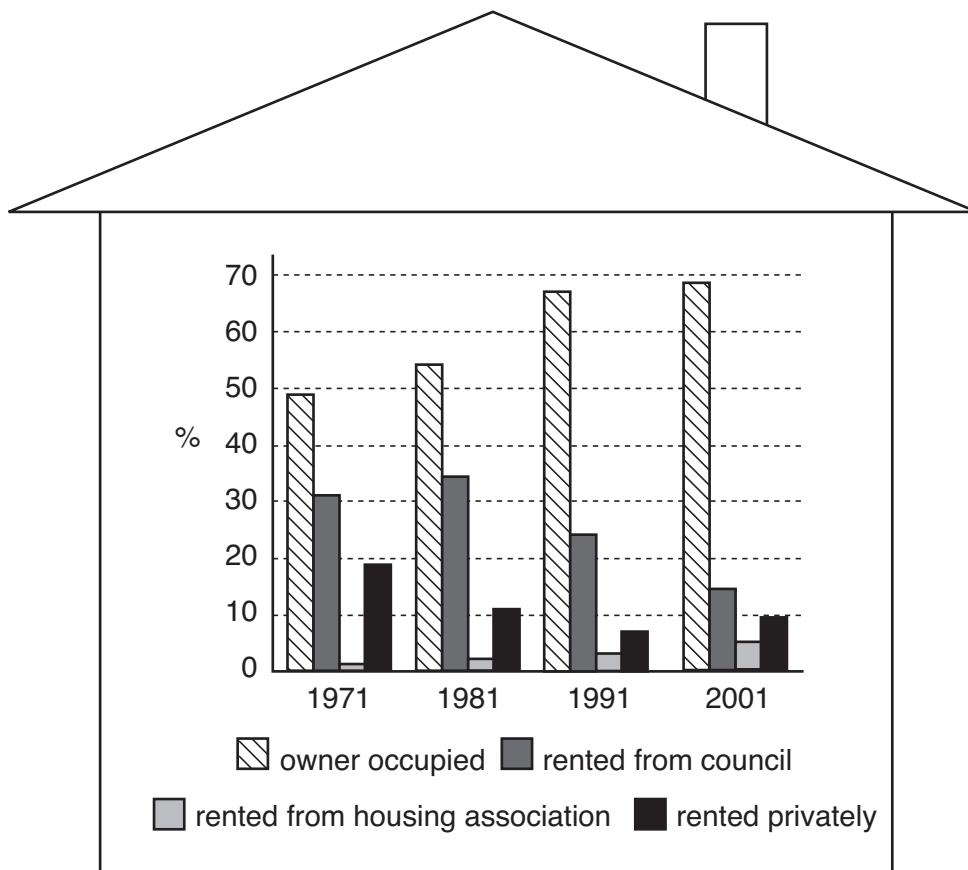


Fig. 6: House For Sale – offers in excess of £70 m

Updown Court is a home in Surrey with the Queen and Elton John as neighbours. It was up for sale in 2005 and the estate agent's description included these details:

60 acres of grounds	Cinema
22 bedrooms	Floodlit tennis courts
His and hers penthouse apartments	Panic room
Parking for 200 cars	Stabling for 5 horses
5 swimming pools	Ten pin bowling alley
Wine cellar	Council tax band H

Previously the most expensive house in the UK is thought to have been bought by the Indian billionaire, Lakshmi Mittal, for around £70 m. The sellers did not expect difficulties in completing the sale of Updown Court at a higher price and pointed out that there were 600 billionaires in the world. The house was expected to sell to a Russian or a Middle Eastern billionaire.

Fig. 7: The new Lego house

In 2005 the Government wished to increase the number of houses in the south of the country and to make them more affordable. The Barker Review in 2004 concluded that an extra 70,000 private sector houses would need to be built each year, as well as at least an extra 17,000 houses for social housing.

Traditional building methods using bricks and mortar mean that building a house is a slow process, but the building industry is looking for new methods to make building easier and quicker.

It is possible that building methods may change if a company called Styrostone UK is successful. With its method of building, the shell of the house is constructed by linking hollow polystyrene blocks together, like Lego, and pouring concrete into the hollow chamber. This is then covered in brick veneer or stucco. The outcome is a cheaper house, which takes less time to build.

Fig. 8: Land used for residential development

The Government hopes that new housing will be built on previously developed brownfield sites rather than on greenfield sites. Buyers, however, often prefer to move to rural locations rather than to former industrial areas. The table shows the previous use of the land used for new housing in 1991 and 2002.

Previous use	1991	2002
Agriculture	38%	31%
Urban not previously developed	11%	9%
Other not previously developed	6%	4%
Residential	18%	16%
Vacant previously developed	18%	25%
Other previously developed	9%	15%

Fig. 9: The average percentage (%) costs of running a UK home in 2002

The total cost was reckoned to be £5,602.

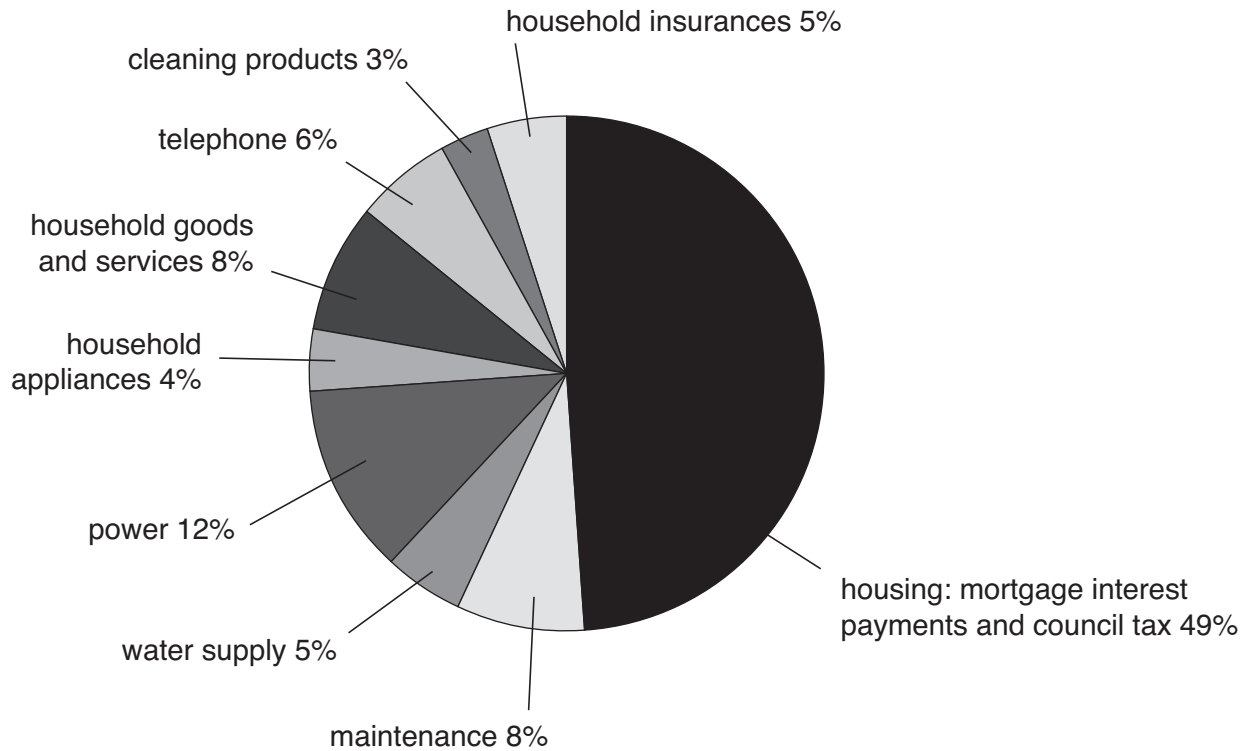


Fig. 10: Changes in Bank of England base interest rate, 1997–2004

The mortgage rate paid by house-buyers usually moves in line with the Bank of England base interest rate.

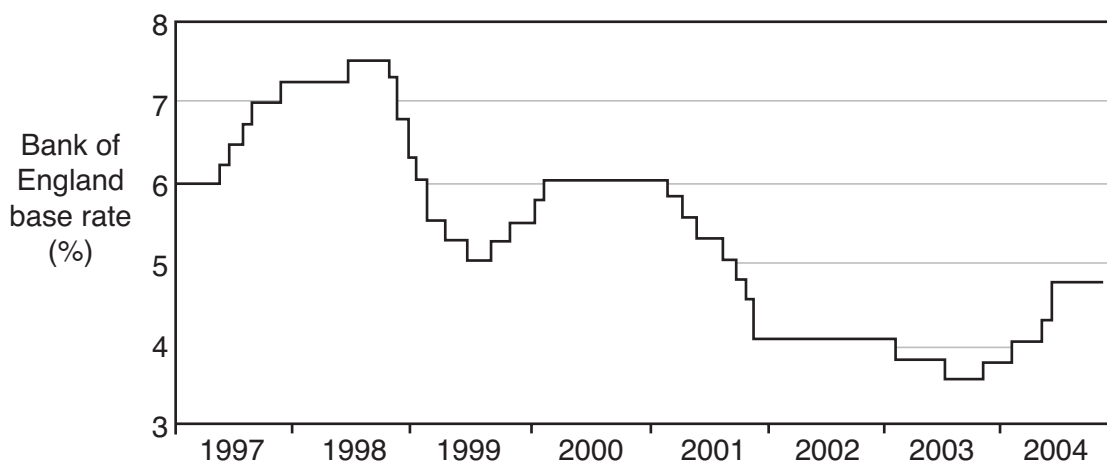
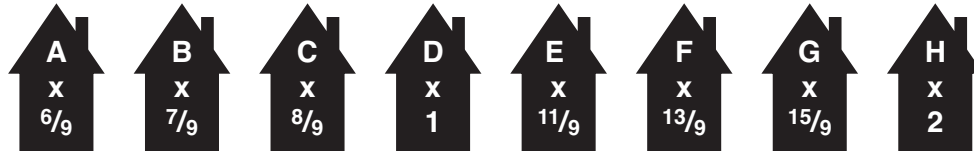


Fig. 11: Houses and local taxation

The owner of a house has to pay council tax, which varies between properties. Each house is put into one of eight valuation bands, depending on the size, location and value of the property.

Local councils work out the amount of tax they need to charge an average band D property, then charge more for more expensive houses and less for cheaper houses. For example, a band H property will be charged double the amount charged for a band D property.



There are reductions in council tax for people living on their own, and those who are on low incomes or unemployed can get council tax benefits. An independent investigation calculated that:

- the richest 10% of the population paid 1% of their income in council tax;
- the poorest 10% of the population paid 7.5% of their income in council tax (although this falls to 2% of their income for those on council tax benefits).

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