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## Answers

# Exam-style questions

## Questions on the UK housing market

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This resource provides answers to the questions posed in the Exam-Style Questions column, in the November 2023 issue of ECONOMIC REVIEW.

### Question 1

Using Figure 3 from the article on monetary policy and the housing market (pp. 7–11), calculate the approximate percentage change in the average UK monthly house price between January 2010 and January 2023. Give your answer to one decimal place. (2 marks)

#### Answer

$$(235,000 - 165,000) / 165,000 \times 100 = 42.42\%$$

- Answer = 42.4
- Accept answers between 40.0 and 45.0%.
- 1 mark for correct answers not rounded to 1 dp.
- 1 mark for correct method but incorrect final answer.

### Question 2

Explain whether the data in Table 1 above show that housing in the UK became less affordable between 2020 and 2022. (4 marks)

#### Answer

- Affordability relates to relationship between income and price of houses.
- Average weekly pay rose by 13.2% across the period while the average house price rose by 16.7%, so affordability may have increased.
- However, inflation in the year to December 2022 (10.5%) was greater than average weekly pay growth (7.35) over the same period so real pay fell, reducing affordability as average house prices grew 6.9% over the same period.

- The interest rate on a typical 5-year fixed rate mortgage rose from 2.69% to 5.05% over the period. This is likely to have increased the cost of financing a mortgage.

### Question 3

With the help of a diagram, explain how an increase in the Bank of England's bank rate may affect the market for houses in the UK. (9 marks)

#### *Answer*

- Definitions, e.g. of monetary policy, interest rate.
- Increased base rate leads to increased market interest rates, increasing the cost of borrowing such as mortgages, reducing demand for houses.
- Reference to data or text in the article or Table 1.
- Use of relevant diagram, e.g. decrease in demand for houses.

### Question 4

Evaluate the view that increasing the bank rate of interest is the best way to reduce inflation in the UK. (25 marks)

#### *Answer*

- Understanding of inflation and types, e.g. demand pull and cost push.
- Nature of inflation targeting and monetary policy framework.
- Understanding of transmission mechanism of monetary policy, including impact on exchange rate.
- Consideration of alternative methods of reducing inflation — quantitative tightening, fiscal policy, supply-side policy.
- The role of inflation expectations.

Issues for evaluation:

- Does 'best' policy depend upon the causes/nature of inflation?
- How effective are interest rates in achieving inflation target?
- How effective is monetary policy in reducing cost-push inflation?
- Strengths and weaknesses of each policy.
- 'Winners and losers' of reducing inflation via contractionary monetary policy.