

RAFFLES INSTITUTION  
2018 YEAR 5 PROMOTION EXAMINATION  
Higher 2

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**ECONOMICS**

**9757/01**

Paper 1 Case Study

**25 September 2018**

**1 hour 10 minutes**

Additional Materials:      Answer Paper

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**READ THESE INSTRUCTIONS FIRST**

Write your name, index number and civics class on all the work you hand in.  
Write in dark blue or black pen on both sides of the paper.  
You may use a soft pencil for diagrams, graphs or rough working.  
Do not use paper clips, highlighters, glue or correction fluid.

Answer **all questions**.

The number of marks is given in brackets [ ] at the end of each question or part question.

**Name:** \_\_\_\_\_

**Civics Class:** \_\_\_\_\_

**Economics Tutor:** \_\_\_\_\_

Question	Marks
<b>1</b>	<b>/30</b>

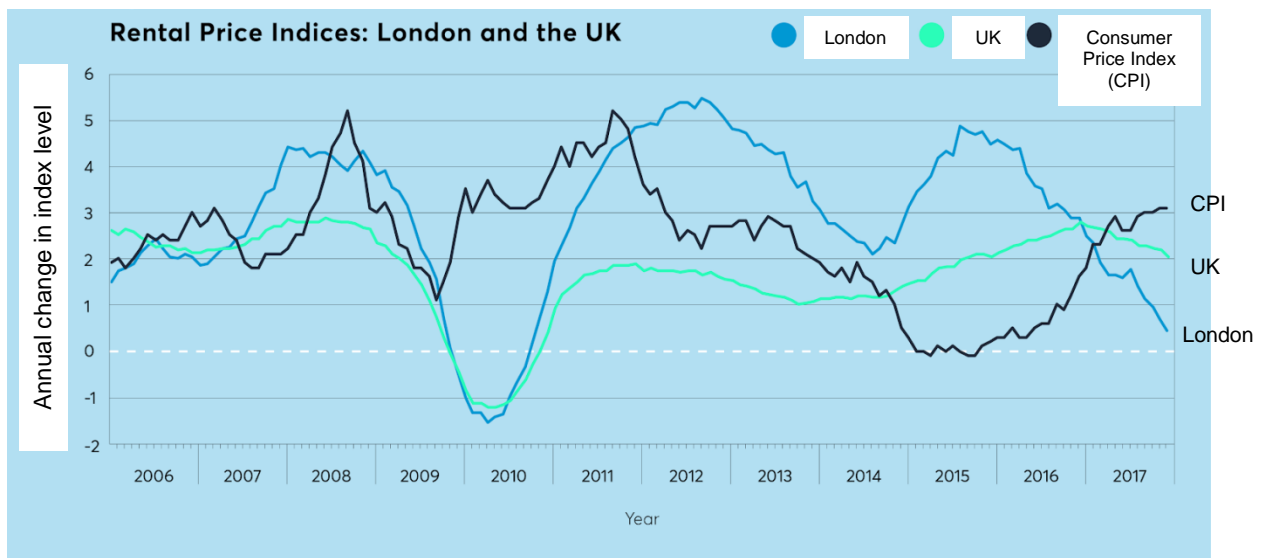
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**Raffles Institution**

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**Question 1:****Figure 1: Rental Price Indices & Inflation in the UK**

Source: Office for National Statistics, UK

**Extract 1: The Rise of Generation Rent in the UK**

As house prices have risen and social housing supply remains constrained, the number of households in the private rented sector has more than doubled since 2001, rising from 2.3 million to 5.4 million. The trend is particularly strong in the 20-39 age group where more than half will be renting privately by 2025.

The global financial crisis brought about tightened credit conditions, particularly affecting deposits, forcing people to rent for longer. The private rented sector acted as a default option for the increasing number of people who could not afford to buy nor qualify for social housing. For some people, renting may be a desirable choice for its flexibility, but for others it may be due to the absence of alternative accommodation.

The rising popularity of homesharing websites such as Airbnb is adding to the problem. The trendy replacement for hotels and hostels in effect removes housing units from the overall supply – units that might otherwise be available for rent.

In the long run, if policymakers wish to reverse these trends, a large and sustained increase in affordable housing supply would be required. This could involve action to address skill shortages in the housebuilding sector and enhanced financial incentives to build more homes.

Source: [www.pwc.co.uk](http://www.pwc.co.uk)**Extract 2: Rent Controls in London**

Britain's housing crisis was laid bare in a report that showed how soaring rents, particularly in London, can swallow salaries. The average private renter in the U.K. capital spent 40 percent of their income on housing between 2013 and 2015, compared with 28 percent in the rest of Britain, according to the Institute for Fiscal Studies. This has motivated calls by

Labour Party's Jeremy Corbyn for the implementation of rent controls - measures where authorities either set rent levels or limit how much they increase.

While many experts think the capping of rent rises - especially when combined with longer tenancies - could benefit renters, they are more sceptical about public authorities setting rent levels. Some would benefit from lowered rents, but others might struggle to find housing because of a reduction in housing supply caused by buy-to-let landlords selling their properties or struggling to get mortgages.

Julian Goddard, a partner at property advisers Daniel Watney, said such measures would still constitute a "sticking plaster" where the fundamental problem is one of overall housing supply. "My recommendation would be to look at the supply side and take measures to ease the viability of new schemes," he said. Planning permission for brownfield development has been prioritised, such as converting old offices into flats. However, uncertainties remain regarding how far these measures can boost housing supply in practice.

Alexandra Morris, managing director of online letting agent MakeUrMove, agrees: "The main problem for tenants is a lack of supply in the housing market, meaning it does not meet demand, particularly when it comes to social housing.

Source: [www.bloomberg.com](http://www.bloomberg.com)

### **Extract 3: New York deflates Airbnb**

In 2007, Brian Chesky and Joe Gebbia came up with a wheeze to rent out two air beds in their San Francisco apartment, because a conference had left the local hotels full-to-overflowing. Thus, Air Bed & Breakfast (Airbnb) was born.

But legislation signed in New York state on October 21st has taken some of the puff out of Airbnb's mattress. New York City is the firm's largest market in America, with around 35,000 properties available for rent. But many of the hosts offer their apartments illegally. In 2010, the state passed a law banning rentals of whole units in residential blocks for less than 30 days (It is legal to do so if the tenant is living there at the same time). To encourage people to comply, Andrew Cuomo, the state governor, approved fines for those who flout the rules of \$1,000 for a first offence, rising to \$7,500 for subsequent offenders.

Locals complain that Airbnb guests, filled with the holiday spirit, can be noisy and inconsiderate neighbours. Worse, they say that as apartments are scooped up by investors to be rented out on a short-term basis, residents are forced out of town. Arun Sundararajan, a professor at New York University and author of "The Sharing Economy", thinks this idea is overplayed. Pressure on housing stock in New York, he says, is affected more by population increase and rent controls than sharing-economy rentals. But not everyone agrees. According to Mr Slee, while Airbnb may indeed have a limited impact on a city in aggregate, for those who live in neighbourhoods that become Airbnb hotspots such effects are all too real.

Europe has acquired a similar taste for regulation. Earlier this year, Berlin banned most short-term apartment lettings in response to a lack of residential housing and the unsociable behaviour of lessees. As with New York, those renting out a portion of their own apartments are unaffected. According to Mr Slee's data, the proportion of serial hosts in Berlin listing on Airbnb has fallen from 36% in 2014 to 20% today.

Not all cities see Airbnb as a curse. London, which has some 47,000 Airbnb-listed properties, has talked up the advantages of encouraging sharing-economy accommodation, particularly for its unfashionable outer boroughs where few hotel tourists ever venture.

Source: [www.economist.com](http://www.economist.com)

#### **Extract 4: Two charged for short-term rentals via Airbnb**

Under the Planning Act, it is an offence to convert the use of a property for short-term accommodation without URA's approval. A URA spokesperson said the authority will take enforcement against anyone found responsible for letting out property for short-term accommodation. This may include the home owner, tenant or any intermediaries such as property agents.

In response to queries from Channel NewsAsia regarding the prosecution of the two men, Airbnb said the current framework for home sharing in Singapore "doesn't reflect how Singaporeans travel or use their homes today" and "stands in contrast" with the nation's commitment to innovation. On a larger scale, the company said, Airbnb also contributes to the local economy, helping to drive S\$324 million of economic activity in Singapore in 2016.

Source: [www.channelnewsasia.com](http://www.channelnewsasia.com)

#### **Extract 5: The Airbnb Effect**

Airbnb is revolutionizing the lodging market by keeping hotel rates in check and making additional rooms available in the country's hottest travel spots during peak periods when hotel rooms often sell out and rates skyrocket, a new study shows.

Competition between traditional hotels and Airbnb is intensifying. Last Friday, Airbnb announced it is expanding its "experiences" offerings to an additional 1,000 cities. Meanwhile, the hotel industry is not only adding its own offerings, but stepping up lobbying efforts in local and federal circles for stricter regulations governing Airbnb.

In addition to access to more rooms, travellers reaped other rewards in places where Airbnb competed with hotels, the study shows. During busy travel times, guests enjoyed an average "consumer surplus" of \$57 per night. This surplus didn't necessarily amount to more money in a visitor's pocket, but it did mean better accommodations at more reasonable prices, Farronato explains.

This effect was particularly strong in cities with limited hotel capacity during peak demand days. On those days, hotel room prices were affected relatively more than occupancy rates, meaning that a hotel in one of these cities might still be fully booked during a peak period, but the competition from Airbnb may have forced the hotel to lower its rates for those rooms.

Home-sharing platforms are likely to gain even more ground over time as consumers become increasingly aware of their benefits, so it's important for hotels to find creative ways to compete. At the same time, as cities add home-sharing regulations, both the benefits of Airbnb to consumers and hosts, as well as the effects on hotels, will likely become less pronounced.

Source: [www.forbes.com](http://www.forbes.com)

**Questions:**

- (a) (i) Define Consumer Price Index. [1]
- (ii) With reference to Figure 1, explain the relationship between rental prices in the UK and the consumer price index between 2006 and 2014. [2]
- (b) Explain 1 possible reason for each of the following:
- (i) why rental prices are rising. [2]
- (ii) why “soaring rents” is a cause for concern. [2]
- (c) Discuss whether rent control is more desirable than supply side measures in addressing the challenges faced in the housing rental market. [10]
- (d) With the aid of a diagram, examine the extent of change in a hotel's profits with the emergence of Airbnb. [5]
- (e) Discuss whether the Singapore government should deregulate Airbnb. [8]

[30 marks]

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**Copyright Acknowledgements:**

Figure 1 © Office for National Statistics, 'Index of Private Housing Rental Prices', Great Britain 2018

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