Student Handout

**Supply and Demand: Single and Multiple Changes in the Market for Homes**



Photo of Moreno Valley ([By Tyler, January, 2009, Wikimedia Commons](http://commons.wikimedia.org/wiki/File:Hidden_Springs,_Moreno_Valley.jpg), [Creative Commons Attribution 2.0 Generic License](https://creativecommons.org/licenses/by/2.0/deed.en))

*Moreno Valley is a suburb located 60 miles east of Los Angeles, California. Consider these three hypothetical changes in the market for houses for sale (not for rent) in Moreno Valley on future home prices and the number of homes sold.*

1. *Residents are starting to work more than before, with more and better paying job openings.*
2. *Construction workers, that are non-residents, are being paid higher wages to build new homes in the area.*
3. *The interest rates that many new homeowners pay on what they borrow to afford the purchase of a new home are increasing. (This type of borrowing is called a mortgage.)*

**Part I**

For each of the above changes, other things equal, decide as a team how the supply and/or demand for homes will be affected and why. Your team’s answer will be one of the diagrams on the last page of this handout: A, B, C, or D. When the facilitator asks, raise your team’s letter placard matching the diagram your team chose. The facilitator will lead all teams, one at a time, through a discussion of each change.

In addition, for each change, individually write responses in the boxes to describe how the quantity supplied and/or demanded will change. Remember a change in supply is different than a change in *quantity* supplied and a change in demand is different than a change in *quantity* demanded.

**Part I Continued**

Change 1. “More jobs and more pay”

a. How is supply and/or demand for homes affected, or not affected, and why?

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|  |

b. How will the quantity supplied and/or demanded change, if they change at all?

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c. Which diagram (A, B, C, or D) on the last page of this handout best represents the change?

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Change 2. “Construction wages rise”

a. How is supply and/or demand for homes affected, or not affected, and why?

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b. How will the quantity supplied and/or demanded change, if they change at all?

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c. Which diagram (A, B, C, or D) on the last page of this handout best represents the change?

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Change 3. “Interest rates increase”

a. How is supply and/or demand for homes affected, or not affected, and why?

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b. How will the quantity supplied and/or demanded change, if they change at all?

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c. Which diagram (A, B, C, or D) on the last page of this handout best represents the change?

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**Part II**

If the three changes occurred simultaneously, decide on the most likely effects on home prices and the quantity of homes sold. Be sure to create a supply and demand graph to clarify and explain your team’s conclusion.

**Result of the three changes on the market for homes in Moreno Valley if they occurred simultaneously:**

i. How would the equilibrium price and quantity for homes change?

A. Price increase, Quantity increase

B. Price increase, Quantity decrease

C. Price decrease, Quantity increase

D. Price decrease, Quantity decrease

E. Price or quantity (or both price and quantity) does not change

ii. Justify your predicted result:

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iv. Graph clarifying and explaining your conclusion:

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**Diagrams**

**(For Part 1,Team Chooses the Letter Placard Matching One of the Diagrams)**

