Mackintosh School

Built Environment Level 1

ECONOMIC CONCEPTS 1:

Why Planners/Architects need to listen to Economists and Visa Versa

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Notices:

- Overheads available at www.gpryce.com
  - Go to "Learning Resources" and Scroll down:
    - Scroll down to the very bottom of the page for "*Mackintosh School of Architecture Lectures*"
      - Lecture OHPs
      - Reading
        - Barker Review
        - Hardin article
        - Monk and Whitehead article
        - Other.

Aims and Learning Objectives:

Aim:

- To introduce architecture students to economics and its relevance to Architecture

Learning Objectives:

By the end of this lecture students should be able to:

- understand the different perspectives of economists and architects;
- understand different notions of success and be aware of whose welfare you are attempting to maximise as a planner/architect;
- understand the importance of prices and their determination

What has Economics got to do with Architecture?

Why should *we* listen to *you*?

- Economists
  - Boring Number Crunchers with no friends:
    - 'economists are accountants without the personality'
- Architects/Planners
  - Interesting, creative and gregarious with superior sex lives
    - artists with the brains of an engineer
    - see research by Dr Edman...

Research by Dr Sally Edman Presented to American Psychological Assoc., Aug 2000

- Emotional Intelligence at Work:
  1. Musicians, dancers, ***artists*** and actors;
  2. Nurses, sociologists, social workers, politicians;
  3. Historians, clerics and philosophers
  4. Teachers and academics
  5. Sport and health managers
  6. Scientists and lab assistants
  7. Linguists
  8. ***Accountants, economists*** and computer scientists

Research by Dr Sally Edman Presented to American Psychological Assoc., Aug 2000

- Accountants, economists etc:
  - "much poorer at working out how other people are feeling; they also have very constant moods. This makes them emotionally unintelligent and unfortunately means that they tend to be less interesting than the rest of the population"
- artists, sociologists etc.:
  - are "highly sensitive and intuitive people" who have "better marriages, sex lives and friendships …"

“Why should *we* listen to *you*?”

Economists

- Irrelevant + useless
  - never agree
  - unrealistic models & assns
  - think they’re scientists!
- Miserly Bank Managers
  - ‘banker is someone who lends you his umbrella when the sun is shining & asks for it back when it rains’
  - preoccupied with balancing the books at the expense of people

Architicts/Planners

- Relevant and Useful
- Artists with the power and the know-how to transform the way we live and the way we view the world

Just the thought of studying economics is, well, …

Painful!!

So, why should architects and planners listen to Economists?

What can you learn from an Economist?

- Q/ If architects & planners are more interesting, relevant, useful people with superior sex lives and more friends, why listen to an economist?
- A/ If nothing else, provide a different perspective:
  - e.g. *Mrs Tweedy's Home Made Chicken Pies*

From the Perspective of the Pie Maker...

From the Chickens' Perspective

Perspectives on Success

- E.g. is the Green Belt around London a success?
- <u>Planners</u>:
  - say yes, but in what sense:

    'success here is used in the way that, say, an expedition to the South Pole is a success if the Pole is reached and a failure if it is not, the cost of the achievement is irrelevant' (Evans, 2000, p. 2)
  - seem to view Greenbelt as an end in itself rather than a means to increasing human welfare

- ⇒ General tendency to view the ‘Plan’ is an end in itself
  - achievement of the plan is a quasi-artistic accomplishment
  - e.g. Inquiry into Greater London Development Plan did not accept the statement that ‘the improvement of London depends on the Londoner’s well being’ (quoted in Evans, 2000)
- <u>Economists:</u>
  - Success determined by weighing up costs and benefits to society of the plan.

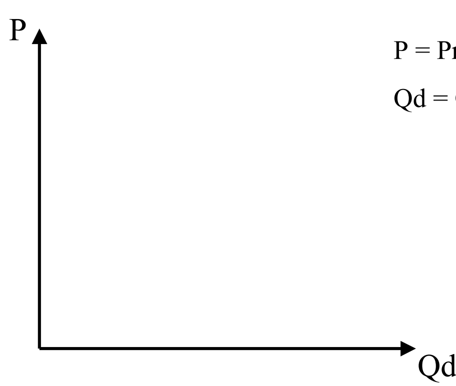
- <u>Planners:</u>
  - View prices as irrelevant:
    - e.g. ‘we would not see the point of looking at price data… Planning should lead, not prices. Land price should reflect planning, not the other way round’ (Planner in a southern District Council, quoted in Evans, 2000).
- <u>Economists:</u>
  - view prices as very important in weighing up costs and benefits of a particular project.
  - Prices reflect <u>*society’s*</u> preferences (rather than the preferences of a single individual -- planner, government bureaucrat, or…. architect).

How are market prices determined?

- Market = where buyer and seller come together to agree price and quantity.
  - But this 'agreement' not independent of other agreements being made between buyers and sellers
    - consumer can go to another seller if he/she can get better price => 'consumer is sovereign'
- => law of one price; laws of demand & supp
    - Amount demanded is determined by price: $\uparrow P \Rightarrow \downarrow Qd$
    - Amount supplied is determined by price: $\uparrow P \Rightarrow \uparrow Qs$
      - => supply & demand (& hence equilibrium quantity) determined by 'price signals'

How does quantity change as prices change?

E.g. what happens to the Qd of PRS housing as rents $\uparrow$?

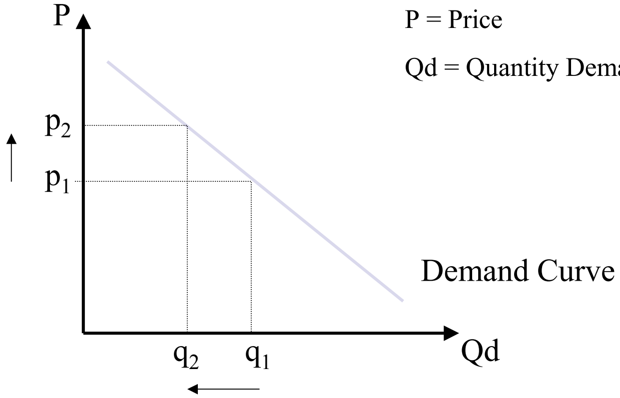


P = Price or rent

Qd = Quantity Demanded

Demand Curve

- Depicts Law of Demand: as P ↑ ⇒ Qd↓
- Movements along the curve arise due to price changes

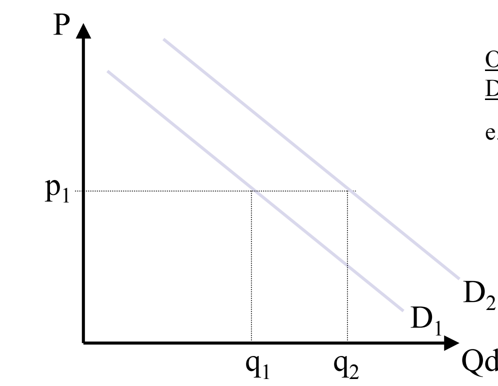


P = Price

Qd = Quantity Demanded

Shifts of the Demand Curve

•Shifts of the curve occur when factors other than price change:



<u>Outward Shift of Demand</u>

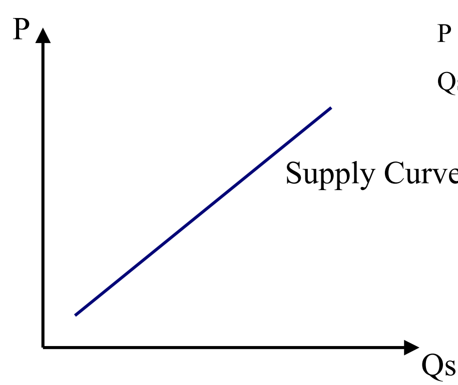
e.g. due to ↑incomes

Determinants of Demand

- Demand can be affected by factors other than own price:
  - (+) ps = price of substitute goods (e.g. alternative tenures)
  - (-)pc = price of complementary goods (e.g. maintenance, credit)
  - (complementary goods are those goods usually consumed with the product in question. e.g. land & housing structure, petrol and cars; TVs and videos, left footed shoes and right footed shoes)
  - (+) y = the individual's income. This in turn is affected by the availability of credit, earnings, bequests, windfalls etc.
  - (?) t = individual tastes, which may be influenced by fashion, age, hereditory factors, advertising and packaging etc.
  - (?) D = demographic factors affect market demand (e.g. population)

Supply Curve

- Depicts Law of Supply: as P $\uparrow \Rightarrow$ Qs $\uparrow$

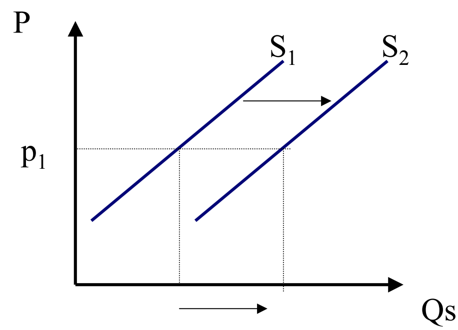


P = Price

Qs = Quantity Supply

Shifts in Supply

- Shifts in supply occur due to non-price factors such as costs & avail inputs; market structure & competition; technology; alternative markets

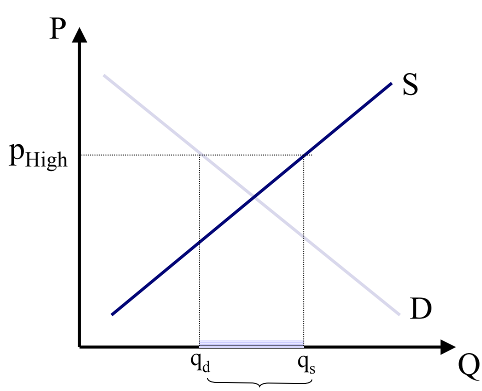


<u>Outward Shift of Supply</u>

e.g. due to ↑avail^y land

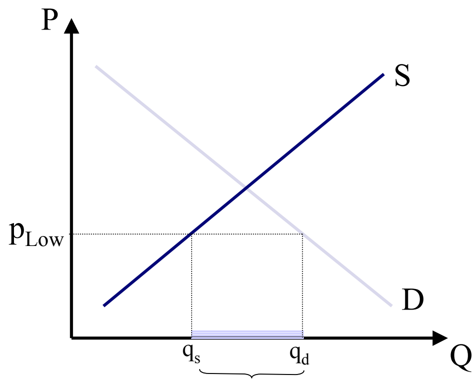
Interaction of Demand & Supply

- What if price is at p_{High} (i.e. above where D=S)?



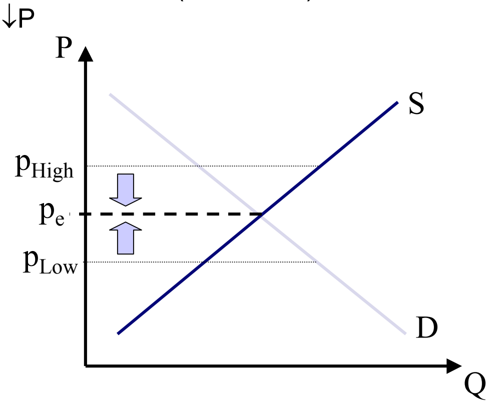
Interaction of Demand & Supply

- What if price is at p_{Low} (i.e. below where D=S)?



Automatic adjustment towards Equilibrium

- Equilibrium occurs where there are no net pressures for price or quantity to change
- This only occurs where D=S (mkt clears) because if D>S ⇒ ↑P and if D>S ⇒ ↓P



Conclusion

- What is your definition of success?
  - Whose welfare are you maximising? (society's or your own?)
- Prices reflect consumer preferences and determine the distribution of resources
- Actions of Planners and Architects affect prices through their effect on demand and supply
- Thus A&Ps have to be aware of the price implications of their actions if they are at all interested in the welfare of society.