



MacIntosh School Built Environment Level 1



ECONOMIC CONCEPTS 2: Market Machinations: The Invisible Hand or the Emperor's New Clothes?

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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.

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Aims and Objectives:

- Aim:
 - the aim of today's lecture is to look in more detail at how the market responds to changes in demand and supply and at what happens when markets operate efficiently
- Objectives:
 - to understand how shifts in demand and supply affect price and equilibrium quantity
 - to appreciate the importance of taking into account the impact of architecture on prices
 - to understand what is needed for markets to operate efficiently and the outcome of when they do

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Plan:

- (1) Review of Lecture 1
- (2) Comparative Statics
- (3) The amazing thing about efficient markets...
- (4) The assumptions required for efficient markets.

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(1) Review of Lecture 1:

- Last week we looked at how economists are often perceived as nothing more than accountants without the personality
 - with little concern for humanity...

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*"Duty is a two-edged sword, Charlotte,
and, as an accountant, my first duty is
to my clients"*



- Like accounts, economists are generally viewed as rather sad individuals, condemned to a life of pedantry, anal retentiveness and poor dress sense...

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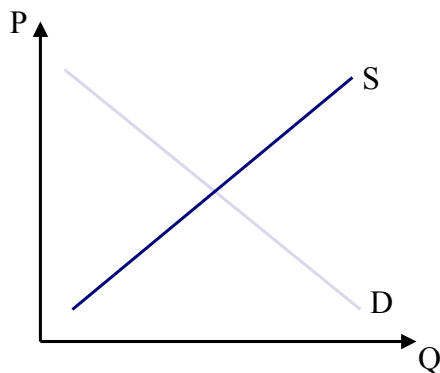
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- ... but perhaps economists do have something to teach us...

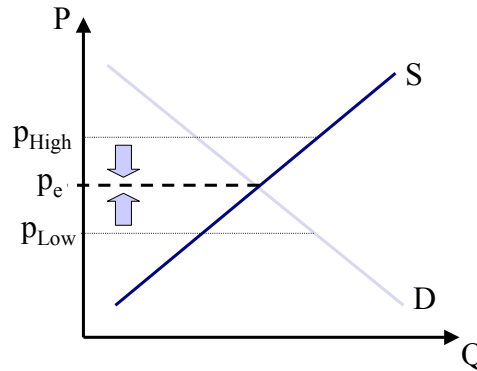
Behaviour of markets: Laws of Demand and Supply



Importance of Markets:

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 $D>S \Rightarrow \uparrow P$ and if $D<S \Rightarrow \downarrow P$



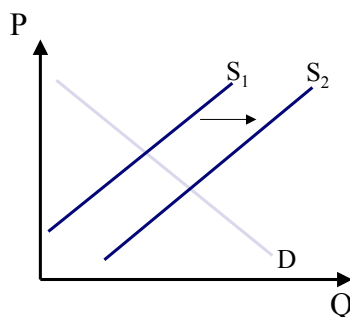
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(2) Comparative Statics

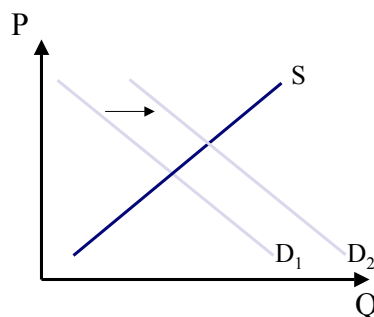
- Comp. stats. not consider the process of adjustment, just the end results.

Outward Shift of Supply



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Outward Shift of Demand



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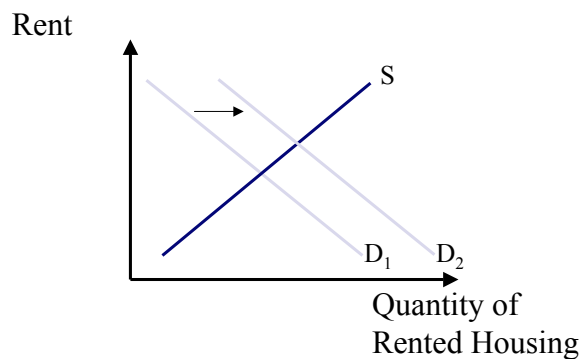
Anything that architects or planners do...

- ...that affects supply or demand for housing or other amenities, will affect prices and the allocation of goods to different income groups.
 - E.g. You Build a beautiful library...
 - ⇒ increases popularity of neighbourhood
 - ⇒ rents go up, poor people have to move out
 - ⇒ gentrification

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Construction of a beautiful library causes an Outward Shift of Demand for Local Rented Housing

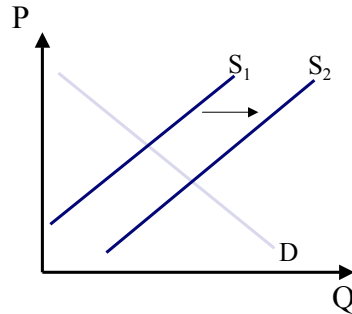


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E.g. Construction of avant-garde extension

- Neighbours hate it. All try to sell their houses, results in an outward shift of supply of OO houses in that area, prices fall,
⇒ value of the extended property falls.



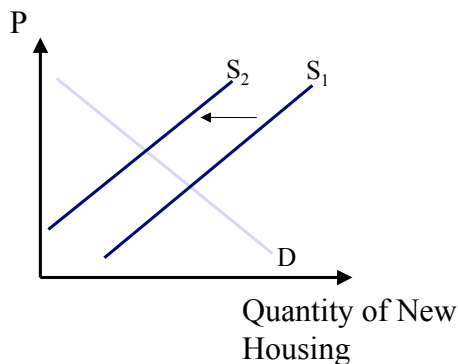
Outward Shift of Supply of OO houses on the market

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E.g. land supply restrictions

Land supply constraints causes Inward Shift of Supply



- prices rise

⇒ homelessness

⇒ firms move out because have to pay higher wages

⇒ unemployment rises

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Hypothetical but not that far-fetched...

- E.g. Channel Four's "Demolition"
 - Viewers voted for worst buildings: "The X-List"
 - Most of the nominated buildings were <50 yrs old.
 - Tower blocks, once seen as leading a revolution in architecture, along with other modernist constructions, are now among the most hated buildings
 - **NB It's not the architects that have to live with these buildings!!!**

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E.g.1: Cumbernauld Shopping Centre

- "Built in the 1960s as the centrepiece of the visionary new town of Cumbernauld in Scotland, the shopping centre looks like a huge concrete space station on stilts, eight storeys high, with a dual carriageway running underneath it.
- Large sections are empty but it is home to a smattering of offices, a library and a low-rent shopping centre connected by a bewildering array of ramps and walkways. According to our poll, it's the worst building in Britain." (Channel 4.com)



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E.g.2: Park Hill, Sheffield

- “One of Britain’s largest concrete structures, the Park Hill apartment complex was opened in 1961...
- Park Hill has been listed Grade II by English Heritage...” (Channel 4.com)



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Architects as Gods and Demigods

- Not just grand projects that blight people’s lives... yes you too can have the chance to impose your will on the people...

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E.g.3 Lodges supermarket, Holmfirth

- “Located in the picturesque Last of the Summer Wine village of Holmfirth, Lodges supermarket was built in the 1970s in yellow brick. It is completely out of tune with its setting and has stood derelict and unused for eight years.” (Channel 4.com)



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Unintended consequences:

- “In the 1960s, the raw concrete and white painted buildings designed by the great architect Le Corbusier gave the world a new architectural language which celebrated brutalism. It heralded a brave new world and, in the Mediterranean sun, undoubtedly had its attraction: it photographed beautifully and seduced those of us looking for contemporary architectural ideas. It became an international style but was often debased in concept and detail and did not always travel well. It was particularly inappropriate in dreary northern climes.”

(George Ferguson, Former RIBA president, channel4.com)

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- Anything you build, once erected, will be difficult to remove
 - Absence of democracy in architecture and planning blights people's lives, causes low demand, vacant dwellings, graffiti, crime, and downward spirals of deprivation.
 - Architects:
 - Need to consider the social and economic consequences of their actions.
 - Need to be accountable!!

Architects and Planners need to listen to Economists because...

- They need to understand the social welfare implications of their actions and designs
 - Planning and construction affects demand and supply
 - ... which affects prices
 - ... which affects the allocation of resources, competitiveness, and unemployment,
 - ... which affects people's welfare and the equality of distribution of resources across society.

Economists need to listen to Architects and Planners because...

- Tastes are not necessarily fixed
 - e.g. Eiffel Tower
 - e.g. Angel of the North
 - e.g. Impressionism
 - e.g. Minimalism
- ...they can be moulded by vision – Lord Rogers’ “Design-led regeneration”.
- But don’t let this go to your head!
 - Even popular construction can have negative side-effects (gentrification, tourism etc.).

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(3) The amazing thing about markets...

- we have shown that one of the remarkable things about markets is that they automatically adjust towards equilibrium
- But there is a much more spectacular outcome of market allocation:
 - It has been argued that if you allow markets to develop without state interference, you will obtain the best possible allocation of resources, the most rapid rates of growth and technological development
 - e.g. British Industrial Revolution: first in the world:
 - put UK on the global economic map
 - due to laissez faire approach to economic management

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Adam Smith's "Invisible Hand"

- Smith argued that,
 - "it is not from the benevolence of the butcher, the brewer or the baker, that we expect our dinner, but from regard to their own interest"
(Smith, *Wealth of Nations*, vol i, p.18)
 - Thus, self interest is a positive force in society, and if we are all left to pursue our own good, the "invisible hand" of the market mechanism would coordinate production and consumption in such a way as to optimise the allocation of resources and maximise economic growth.

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Manderville's "Grumbling Hive"

- Smith had been inspired by the writings of Manderville, particularly his famous poem about a bee hive made productive by vice:

*The root of evil, avarice,
That damn'd ill-natured baneful vice,
Was slave to prodigality,
That noble sin; wild luxury
Employ'd a million of the poor,
And odious pride a million more*

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*Envy itself and vanity
Were ministers of industry;
Their darling folly, fickleness
In diet, furniture and dress,
That strange ridic'ulous vice, was made
The very wheel that turn'd the trade.*

20th Century Refinement of Market Allocation Theory

- More recently
 - It has been shown that if all markets in the economy operate efficiently, the allocation of resources will be allocatively efficient
 - ⇒ cannot make someone better off without making someone else worse off.
 - Trade: allows people's different preferences to be reflected in allocation -- v. difficult to do by planner
 - e.g. Fruit Distribution:
 - give each of you 10 apples, bannanas, sharon fruit, oranges, pineapples, lychees, bunches of grapes, pears
 - Equality?
 - Optimal?

Q/ What do markets need to do to operate efficiently?

2. Assumptions Needed for Efficient Markets

- i) Perfect Competition:
 - in fruit eg, prodctn not considered
 - what fruit supplier have monopoly on partic fruit?
- PC Ensures:
 - lowest possible prices for consumers
 - resources gravitate to most efficient use
 - no distortions to allocation from supply side
 - if large profits \Rightarrow new firms enter \Rightarrow supply shifts outwards \Rightarrow fall in price \Rightarrow normal profits (i.e. just enough to keep firms in current industry)
 - losses (i.e. less than normal profits) \Rightarrow firms leave industry \Rightarrow supply shifts inwards \Rightarrow rise in price \Rightarrow profits rise until they are 'normal'

Efficient Market Assumptions cont.

- ii) No Public Goods
 - these are goods which the market will not supply in sufficient quantities, or will over-supply to the detriment of certain consumers
- iii) All Markets are 'Complete'
 - i.e. if the cost of providing a good is less than the what individuals are willing to pay, then the market will provide all goods that meet this criteria.

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- iv) Perfect Information:
 - perfect knowledge of past, present and future prices, quantities and quantities and of all related markets
- v) Whole = sum of parts
 - macro economy behaves in same way as individual micro markets, and so self adjusts the same way.

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Summary

- Sometimes our actions can have unexpected outcomes, particularly if we don't fully understand the working of the market.
- A key component of markets are prices which act as signals to producers and consumers re how much to produce and consume
- Thus, prices determine the distribution of resources and so are very important
- 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.

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Reading:

- Alan Evans article and *Urban Economics* book (1985) Blackwell.
- Chapter 1 of LeGrand, J., and Roinson, R. (1992) *Economics of Social Problems* (3rd Edition) Basingstoke: Macmillan ISBN 03 33 55 25 8X (Price: £17:99).
- Chapters 2 & 4 of Parkin, M., Powell, M. and Matthews, K. (1998) 'Economics', (Fourth Edition), Essex: Addison-Wesley
- Chapters 2, 3 and 4 of Pass, C. & Lowes, B. (1994) 'Business and Microeconomics: An Introduction to the Market Economy', London: Routledge

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