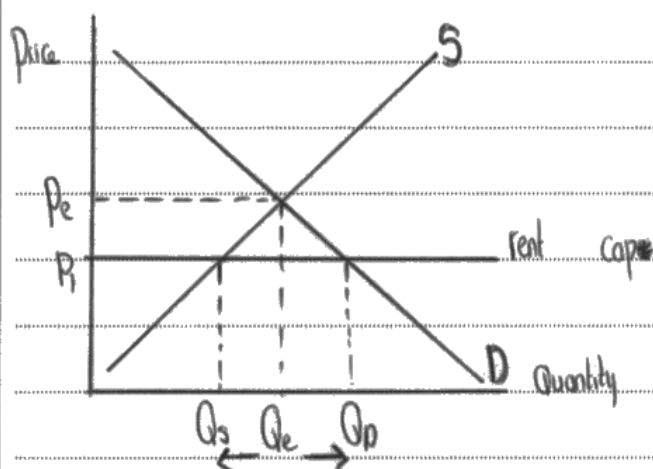


(c) Using a suitable diagram, assess the effectiveness of a rent cap in solving the problems of the London housing market.

(12)



The effectiveness of a price cap on rent is that it will increase the demand for rent from Q_e to Q_p and this is due to the

fact that people looking to rent will know that their rent is stable. This stability will increase the demand for rent as people will be more willing to pay rents and so this will help with the 'hidden homeless' crisis.

The second effectiveness of this is that if people are demanding more rent at Q_p than there will be less demand on mortgages and so this will help those currently in a mortgage as interest rates won't rise as fast. In the past more people have looked towards mortgages as it tends to be cheaper in the long ~~run~~ and this has a detrimental impact on mortgage rates as the interest rates increase. However, as rent rates are more favourable with the rent cap this will prevent this from happening and so both rent and mortgage levels will remain stable.

However, the detrimental impact of a rent cap is that it causes the supply of rent to decrease from

Q_E to Q_s . This means that there are less places to rent due to the fact it is less profitable for those with homes that rent them out to do so anymore. This means that if less people are potentially renting their properties out then there will be less places to live and this may not help with the 'hidden' homeless crisis.

Overall, I believe that the rent cap will make renting more affordable and so can have the potential to help with the London housing market. However, it is all dependant upon how low below the market equilibrium of P_E and Q_E the rent cap is set as if it is set too much below then there may be excess demand or people wanting to rent and not enough supplies to house them.



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