



Economics Critical Thinking Case Study (2024 Finals)

Judges Copy

Rising Housing Costs

The Issue:

The United States has experienced a significant increase in housing costs in recent years, which has led to affordability challenges for many individuals and families. This increase in cost was caused by various factors such as limited housing supply, effects stemming from the COVID19 pandemic (and subsequent recovery from it) and changing interest rates. As a result, homeownership has become increasingly out of reach for a growing number of individuals, particularly those in urban areas with high demand for housing.

The Problem:

The steady increase in housing costs poses challenges for both individuals and the broader economy. High housing costs can be a large strain on household finances, in turn increasing financial insecurity. Additionally, rising housing costs can lead to displacement and homelessness as individuals struggle to afford rent or mortgage payments. From a big picture perspective, higher housing costs can also dampen consumer spending and reduce economic growth.

Your Team's Task:

Your team serves as advisors to the Federal Reserve, tasked with analyzing the impact of rising housing costs on the economy and recommending appropriate policy responses. Specifically, the team must evaluate the potential effects of adjusting the federal funds rate on housing affordability and overall economic stability (which includes fighting inflation and keeping unemployment low). Consider the following stakeholders in your analysis:

1. Homeowners
2. Renters
3. Real estate developers and investors
4. Local governments



For each group, assess how changes in the federal funds rate may influence housing affordability, housing market dynamics, and broader economic outcomes. Additionally, propose alternative policy measures that the Federal Reserve could implement to address the housing affordability crisis while balancing other economic objectives.

Questions to ask students by judges:

1. How do changes in the federal funds rate affect mortgage interest rates, and how does this impact homeownership affordability?
2. What are the potential unintended consequences of lowering the federal funds rate to stimulate housing affordability?
3. How does the housing affordability crisis intersect with other social and economic challenges, such as racial disparities and income inequality, and how can policymakers address these interconnected issues?