**Question 10**

**The price of luxury condominiums is rising tremendously over the past few months despite an increase in the number of launches by the developers. In fact, the developers had set higher prices for the launch of their new projects.**

**Based on economic analysis, explain why the price of luxury condominiums is rising despite an increase in the number of launches by the developers? (12)**

**Introduction**

The understanding of the above-mentioned pricing condition for the luxury condominiums can be explained with the understanding on how market equilibrium is derived. Market equilibrium is attained at the level when the market demand intersects with the market supply, and the price level and quantity is determined. This market equilibrium will only change when there is a change in the determinants affecting demand and supply

**Main Body**

**a) Explain how the price level of the luxury condominiums is determined.**

Based on the economic analysis of demand and supply, the price level for luxury condominiums is determined through negotiation of the consumers’ demand preference and purchasing power and producers’ profit motive and production capacity, as reflected by the market demand and supply curve respectively. As seen from diagram 1a, the demand curve is downward sloping from left to right, implying that more condominiums will be demanded when there is fall in price and vice-versa. As for the supply curve, more quantity of condominiums will be supplied when there is increase in price and vice-versa. At the point intersection, the market equilibrium is set at E0 where the price level and quantity are at P0 and Q0. However, the market equilibrium will change when there is a change in the market and supply condition.

Price So

Po Eo Fig 1a –Market

Do

Q0

Quantity of luxury condominiums

**b) Explain why the price of luxury condominiums will fall when there is an increase in market supply.**

When there is an increase in market supply due to more launches, there will be a decrease in price level as the increase in supply causes an excess supply condition, creating a downward pressure for price to fall so as to restore market equilibrium. As seen from diagram 1-b, the fall in the supply cause a shift of the supply curve to shift from left to right, leading to a fall in price from Po to P1. This increase in supply may be due to better business expectation, fueled by greater consumer demand for such houses. As the government releases for land for building such condominiums, the capacity of production increases contributing to the increase in supply. Furthermore, as more firms join the production lured by higher profit, the supply will also increase. However, this economic analysis seems not applicable to the luxury condominiums where the increase in market demand has contributed to a rise in price

# c) Explain why the price of luxury condominiums rise despite an increase in supply

In the case of the market for luxury condominiums, the economic analysis can be correct and valid when the effects of the change in demand condition are taken into consideration. Followed by an increase in supply, if there is a corresponding increase in demand, the price level will increase **when the percentage increase in demand is greater than the percentage increase in supply, as seen in the market for luxury condominiums**, Under such situation, the market exist an excess demand market condition, causing a upward price movement to restore market equilibrium at a higher price level as seen in diagram 1-b when the price level rises from P1 to P2, due to a larger percentage change in demand.

The increase in demand can be due to a rise in income level due to global economic growth, expanding the size of consumer market. The inclusion of consumers from foreign countries constitutes a large percentage change in demand. As Singapore is safe and ideal place for living and the new condominiums are located at very conducive environment, they are greatly liked by the buyers. Furthermore, some producers may increase their price deliberately to earn more revenue as they know that the demand is inelastic.

## Conclusion

The economic analysis is not wrong when the consideration is only from the perspective of demand but it is also applicable in the hand phones industry when the supply factor is considered.