CLASPP Slides

November, 2024 - IB Economics - AISR

How to Evaluate in Economics

Evaluation is a key concept in IB Economics.

Before we evaluate, we first analyze.

Analysis involves providing DEED: Definitions, Explanations, Examples, and Diagrams to answer the question.

What is Evaluation?

Analysis explains relevant theory.

Evaluation critiques the theory.

Economic theories often suggest certain outcomes (e.g., price ceilings cause shortages).

But theories have nuances and uncertainties.

Purpose of Evaluation in Economics

Evaluation examines potential errors and uncertainties in theory.

It considers other relevant factors when deciding if a policy is beneficial.

Example: Evaluating a policy's effects on stakeholders, long-term impacts, and potential downsides.

CLASPP (a tool for evaluating in IB Economics):

Conclusions

Long-term and short-term effects

Assumptions

Stakeholders

Priorities

Pros and cons

Shoot for 3

Yes there are some redundancies, which is why you don't need to do all of them.

Using CLASPP - Conclusions

Conclusions synthesize the diagram insights:

Summarize what the theory suggests.

What is the main relationship between elements in your diagram? (e.g., price ceiling effects on price and consumption).

Using CLASPP - Long-term and Short-term Effects

Some policy effects aren't visible immediately.

Questions to consider:

Is the policy beneficial short-term but harmful long-term?

Does it solve one issue but create another over time?

Using CLASPP - Assumptions & Stakeholders

Assumptions:

Are there unrealistic assumptions (e.g., all else equal, rational behavior)?

Stakeholders:

Consider the impact on various groups (government, consumers, producers).

Policies may favor certain stakeholders while disadvantaging others.

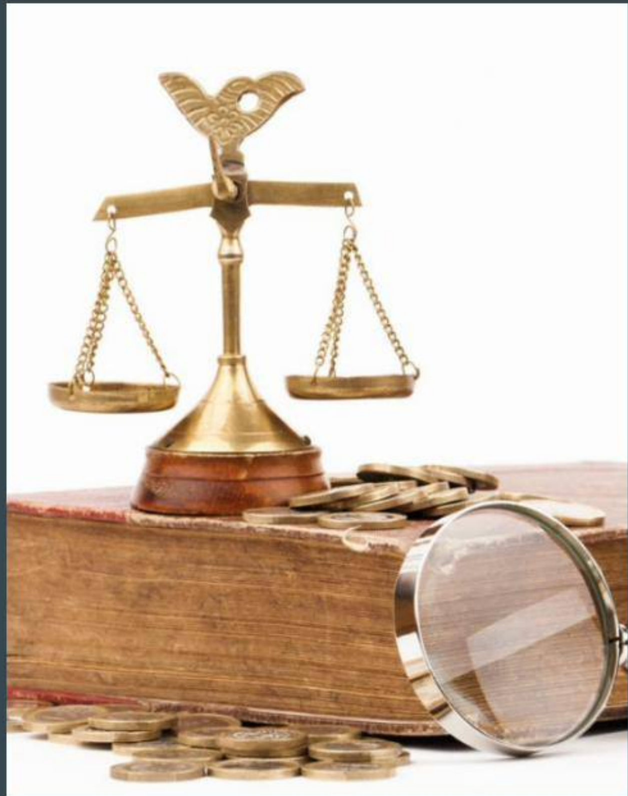
Using CLASPP - Priorities & Pros and Cons

Priorities: Who does the policy benefit most? Reflects societal values and priorities.

Pros and Cons:

List additional advantages and disadvantages.

Weigh the costs and benefits to see all perspectives.



CLASPP Case Study - Rent Control in New York City

Context: New York City has longstanding rent control laws to keep rental housing affordable for low- and middle-income residents.

Policy Overview: Rent control caps rent increases on certain apartments, protecting tenants from sudden price hikes but potentially impacting the housing market.

CLASPP - Conclusions

According to economic theory, rent control should provide affordable housing for tenants but may distort market dynamics.

Conclusion: Rent control successfully limits rent increases for existing tenants, reducing their financial burden. However, it can create a disincentive for landlords to invest in and maintain properties, potentially leading to a shortage of well-maintained rental units in the long run.

CLASPP - Long-term vs. Short-term Effects

Short-term Effects:

Rent control provides immediate relief for tenants, allowing them to stay in their apartments at predictable and affordable rates despite market fluctuations.

Tenants have more disposable income for other needs, which can help improve their quality of life.

Long-term Effects:

Over time, rent-controlled units may become harder to find as fewer units enter the rent-controlled pool and landlords may convert properties to market-rate units or condominiums.

Landlords' reduced income can lead to neglected maintenance and repairs, deteriorating the quality of housing stock, which could affect the city's appeal and housing standards.

CLASPP - Assumptions

Rent control policies assume landlords will continue to rent out their properties despite restrictions on rent increases, but some may exit the rental market or convert units to alternative uses.

Assumes that keeping rents stable directly helps tenants, though it may only benefit those already in rent-controlled apartments, leaving new renters or middle-income earners without affordable options.

The policy presumes a stable market environment (ceteris paribus), but economic factors like inflation, rising property taxes, or higher maintenance costs can make it challenging for landlords to maintain rent-controlled properties.

CLASPP - Stakeholders

Stakeholders:

Tenants: Benefit from predictable rent, particularly low-income and long-term residents who rely on affordable housing options. However, newer tenants might struggle to find rent-controlled units due to limited availability.

Landlords: Face lower returns on investment and reduced flexibility, which can discourage property improvements and upgrades. Some landlords may sell or convert properties to avoid rent regulations.

Local Government:

Gains political support by protecting affordable housing but must also manage the consequences, such as decreased housing quality and a potential shortage of rental units.

Broader Community: Rent control can support community stability and prevent displacement, but it may limit the overall availability of rental housing, affecting the broader market.

CLASPP - Priorities

The primary priority of rent control in NYC is to protect long-term residents from rising housing costs and reduce displacement in gentrifying neighborhoods.

Reflects the societal and political value placed on affordable housing in high-cost urban areas, focusing on tenant protection over market efficiency.

However, the focus on affordability for select residents can come at the expense of a flexible, well-maintained housing market and equitable housing access for new residents who cannot access rent-controlled apartments.

CLASPP - Pros and Cons

Pros:

Rent control allows long-term residents to stay in neighborhoods despite rising property values, fostering stability and socioeconomic diversity.

It protects vulnerable populations from rapid rent increases and prevents housing displacement in expensive urban areas.

Stabilizes neighborhoods by reducing tenant turnover, creating stronger, more cohesive communities.

CLASPP - Pros and Cons

Cons:

Limits the availability of rental units, as landlords may convert units to condos or market-rate rentals.

Discourages landlords from investing in property maintenance and improvements due to limited returns, which can lead to deteriorating housing conditions.

Creates a disparity between those benefiting from rent control and those who face market rates, leading to inequities within the rental market.

Final Summary on Rent Control in NYC

Rent control policies in NYC achieve their goal of providing affordable housing but at a cost to overall housing availability and market flexibility.

The CLASPP analysis reveals trade-offs between tenant protection and market health: rent control benefits long-term tenants but may discourage investment in rental properties.

NYC's rent control policies highlight the complexity of balancing social priorities with economic realities, showing how policies that address one problem can inadvertently create others, especially in high-demand housing markets.

Notes on Paper 1, 2, 3

The idea of evaluation is consistent throughout the three types. However, one thing to be aware of is that on paper 3, you might get part of or a graph itself, where as in paper 1-2 the expectation is that you construct your own graph.