

**Economics 414: Urban Economics**  
University of Illinois, Urbana-Champaign  
Fall 2025

**Professor David Albouy**

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Office: David Kinley Hall (DKH) 225A

**Lecture:** Monday and Wednesday, 3:30 – 4:50 pm DKH 119

**Office Hours:** Monday, 5:00-5:30pm; Wednesday, 10:30-11:30 am, DKH 225A

**Pedagogical Goals:**

- How to apply scientific principles and economic logic to complicated social issues relevant to urban environments, including location choices, housing, crime, and transportation.
- Improve familiarity with economic conditions & history relevant to U.S. regions and cities.
- Better understand how to interpret statistical and econometric analyses, and how to find reliable information.
- Deepen understanding of how decentralized individual behavior in markets affects economic outcomes, through the lenses of optimization and equilibrium.
- See how spatial differences in prices serve as signals for where firms, workers, and households want to locate, and the supply of those locations.
- Consider the welfare effects of different policies, or lack thereof, around issues such as housing assistance, rent control, transportation policy, policing etc.

**Prerequisites:** Intermediate Micro-economic Theory (e.g., ECON 302), Economic Statistics II (e.g., ECON 203).

**Evaluation (please see additional handout on grading scales):**

**70% Weekly EITHER homework OR quiz: 5 points/week x 14 weeks**

- a. Homework assigned at end of the week (Wednesday) due one week later.
  - Short questions related to lecture, reading, or viewing.
  - Late assignments count as a zero.
- b. In class quiz, usually Wednesday, on material from the week before
  - Cover previous lecture, reading or assigned viewing.
  - Each question is one point, with about 2 to 3 minutes per question
  - Questions will often require you to think, not just regurgitate information.
  - May use ONE PAGE of notes (front and back) in OWN HANDWRITING
  - Absence for a quiz count as a zero

Your two lowest weekly grades can be converted from as low as 0 to 5 by attending office hours to discuss material, readings, or *previous* homework.

**30% Final exam** (Dec 15, 7pm): roughly equal parts multiple choice, short answer & long answer questions. Previous exams are available online. (No 100% option available!)

**+5% Attendance and Participation**

- Attendance will be taken *randomly* (not every day)
- Participation for asking questions/stimulating discussion in class or office hours.
- Pronouncing my last name correctly (in English, rhymes with “Illinois”)

**+?% Additional Extra Credit** (To be determined)

Reading is a complement, not a substitute for lecture. This course is not “taught out of a book.”

**Class attendance and taking detailed notetaking is essential.** Material not on the slides, either from the book or presented verbally, may be on quizzes, homework, and exams. In fact, these will stress subjects most discussed in class (not necessarily what is in the slides or book).

\*Master’s Students: 1) find an economic article related to urban economics and receive my approval; 2) come to my office for an oral exam for 15 minutes on Reading Day (Dec 12)

**Assignments, deadlines, and grades posted on the course website (Canvas). Greater information will also be provided in class, so be sure to attend.**

Laptop computers are **not** to be used in class. Please take notes on paper/notebook or a tablet.

Please contact me during the **first three weeks of class** by email to work out arrangements if you have any special needs. Except for documented illnesses and emergencies, **no special arrangements for examinations will be made after the third week of class.** Bring a picture ID to all examinations.

This class sometimes covers sensitive topics on inequality, race, gender, and other issues. Please let me know if you have needs or requests regarding family or health needs, pronouns, or anything else important to you. You are respected and valued in this class and will not be graded for political, religious, or moral beliefs – viewpoint diversity is welcome and encouraged. Personal attacks, harassment, and bullying are not. You are welcome to come to office hours to chat not only about class, but your aspirations in academia, career, life, and intellectual journey.

Unlike many of the instructors you have had thus far, I am a tenured research-oriented professor. Much of my time is spent engaging in research activities including publishing, peer-review, academic conferences, advising doctoral students, and mentoring junior faculty. This means that I may share with you some of my own published findings, as well as what is currently being discussed. Also, I can provide you with more of an insiders’ view of the research in urban economics. If you are interested in pursuing economics to a higher level, I can advise you on graduate programs or research assistantship when you graduate – do not delay.

**Required Reading** – notes, book chapters, journal articles – **posted online.**

Arthur O’Sullivan, *Urban Economics* (currently 9<sup>th</sup> edition) – **you should buy (sorry)**

**I reserve the right to stop posting slides if attendance falls – not attending class exerts a negative externality on other students so please show up.**

**Additional References** (Some book chapters will be taken from these.)

John McDonald and Daniel McMillen, *Urban Economics and Real Estate: Theory and Policy*

Brueckner, Jan K. *Lectures on Urban Economics*

Richard Green and Stephen Malpezzi, *A Primer on U.S. Housing Markets and Housing Policy.*

\*De Groot, Henri, L.F. *Cities and the Urban Land Premium*

\*Edward Glaeser, *Triumph of the City* (recommended)

\*Edward Glaeser and David Cutler *Survival of the City*

\*\*Nicholson, Walter *Microeconomic Theory: Basic Principles and Extensions.*

\*\*O’Flaherty, Brendan *The Economics of Race in the United States*

\*\*Cunningham, Scott *Causal Inference*

Edward Glaeser: *CitiesX* on YouTube, especially “Urban Economics 101”

## **COURSE OUTLINE (29 lectures + final exam)**

*Attend all classes! All lecture times are approximate. Some topics may be dropped if time is short.*

### **Unit 1: Introduction**

- 8/25: Introduction and review of syllabus. Defining urban economics. Social science vs planning.  
8/27: Six key concepts in urban economics. What is urban? Defining cities statistically and economically with U.S., esp. Illinois examples. Zipf's Law.

**Reading:** O'Sullivan Ch 1 & 2

**Videos:** Our Urban Age | Edward Glaeser | TEDxBeaconStreet; CitiesX: Agglomeration Economies & Supply and Demand; Utopian Cities

### **LABOR DAY**

### **Unit 2: Economic Methodology, Urban Experiments**

- 9/3: Economic methodology and philosophy. Economic explanations. Social psychology and the "Fundamental attribution error." Scientific ethics & pitfalls. Real experiments: MTO (Moving to Opportunity) and BAM (Becoming a Man). Housing projects and choice programs. Reducing violent crime and improving academic achievement.  
9/8: Cognitive psychology in economics. Getting through confirmation and publication bias.

**Videos:** Chicago Booth Review: How slow thinking can help at-risk youth; CitiesX: Moving to Opportunity; Joshua Angrist "Nobel Lecture 2021"; Veritasium: "Is Most Published Research Wrong"; Freakonomics Radio: "John List: Why Most Ideas Fail to Scale"

**Reading:** Gruber Ch 3; McDonald & McMillen Ch 3

### **Unit 3: Schools of Thought, Normative and Welfare Economics in an Urban Context**

- 9/10: Heterodox perspectives: Marxism, Post-modernism, Conservatism. The "Law" of unintended consequences. Normative Economics: Utilitarianism, efficiency, social welfare. Equality of outcome vs. opportunity. Bentham, Rawls, and egalitarianism. The categorical imperative and the harm principle.  
9/15: Equity-efficiency tradeoffs. First and second welfare theorems. Lump-sum vs. in-kind transfers. Opportunity costs and valuation of non-market resources.

**Reading:** Gruber Ch 2; Stiglitz and Rosengard Ch 7 (extra)

### **Unit 4: Why Cities? Agglomeration Economies and Diseconomies**

- 9/17: Wages and city size. A simple model of agglomeration economies. False externalities in prices ("pricing out") vs. true externalities. Sharing and the division of labor.  
9/22: Matching in work and consumption. Learning and innovation. Diseconomies of scale from crowding, pollution. Tolerance, principles of social interaction, and social capital. Optimal city size with two or more locations.

**Reading:** O'Sullivan Ch 3,4,5,6, & 7; McDonald & McMillen Ch 4

**Videos:** CitiesX: Agglomeration Economies and Urban Instability

### **Unit 5: Urban Economics Seen in the History of Cities**

- 9/24: A world history of urban economic processes from pre-history through post-industrialization. Agriculture, surplus, and extensive growth. Urban public goods.
- 9/29: Urbanization in modern era. the U.S., Illinois, and Chicago. Intensive growth and improvement in economic welfare. The economic geography of North America. Urban rise and decline in the manufacturing belt. The rebirth of cities and current challenges post-Covid.

**Reading:** O’Sullivan Ch 8 & 9; Todaro and Smith Ch 7.1 to 7.3

**Videos:** Marginal Revolution University: The Hockey Stick of Prosperity; CitiesX: Buenos Aires and Chicago; The Rise of Detroit; The Fall of Detroit; The Rebirth of New York; The Great Migration; Shenzhen; New York a Documentary, episode 7, The City and the World: 1945-2000.

### **Unit 6: Understanding Price and Wage Differentials across Space (and other Dimensions)**

- 10/1: Hedonic model of housing rents, and worker wages. Data sources and omitted variable bias. Prices and wages across cities and suburbs. Wage differentials by location, gender, race, and education; human capital. Included variable (“collider”) bias. Challenges in creating a truly causal model of human development.
- 10/6: Taste and statistical theories of discrimination. Stereotypes and the ability of government policy (e.g. affirmative action) to change them. Audit and correspondence studies.

**Reading:** Smith Book 1, Ch 10 (*The Wealth of Nations: Wages and Profits.*) Cunningham Ch 3

**Videos:** PBS NewsHour: How Disadvantaged Neighborhoods Amplify Racial Inequality

### **Unit 7: Segregation and Discrimination: Theories and Consequences.**

- 10/8: Segregation measures. Segregation by race, income and politics. Spatial mismatch hypothesis. School quality and the black-white wage gap over generations.
- 10/13: Theories of Racism, Collective action racism. Statistical discrimination and discriminatory equilibria. Affirmative action versus other policies.
- 10/15 A decentralized model of neighborhood segregation: the tipping model.

**Reading:** O’Sullivan Ch 15; John Yinger, “Evidence of Discrimination in Housing Markets”

**Videos:** CitiesX: Race and Tipping Models

### **Unit 8: Housing Demand, Affordability, and Policies**

- 10/20: Theory of housing demand: uncompensated and compensated. Price and income elasticities; substitution and necessities. Indirect utility and expenditure functions.
- 10/22: Ideal vs. actual cost-of-living indices. Housing vouchers (in-kind benefits); public housing; rent control.

**Reading:** McDonald & McMillen Ch 10; O’Sullivan Ch 12; Nicholson: Utility and Demand Theory

**Videos:** CitiesX: The Demand for Cities; Unpacking the Demand for the City; Rent Control

### **Unit 9: Housing Production, Costs; Geographic and Regulatory Constraints**

10/27: Housing production and supply. Cost functions, land, and construction inputs. Housing productivity, geography, and land-use restrictions.

10/29: Housing durability and neighborhood cycles, regular and “reverse” filtering. Neighborhood gentrification.

**Reading:** O’Sullivan Ch 16 & 17; Nicholson: Production and Cost Theory; Gruen: Ch 1 & 2

**Videos:** CitiesX: The Supply of Urban Space; Dynamics and Durable Housing; Public Housing

### **Unit 10: Transportation and Pricing**

11/3: Transit facts; the private and social costs of driving. Highways and transportation demand; congestion costs and pricing.

11/5: Mass transit, mode choice, and cost; alternative transportation.

**Reading** O’Sullivan Ch 18 & 19

**Videos:** CitiesX: The Rise of suburbs

### **Unit 11: Economic Location and Spatial Equilibrium**

11/10: Why households live where they do. Spatial Equilibrium across cities. Quality-of-life measurement and climate. The value of local amenities and non-market goods.

11/12: Spatial Equilibrium inside cities. The monocentric city, land-value and housing rent gradients; Skyscraper heights

**Reading:** O’Sullivan Ch 10, 11 & 13

**Videos:** CitiesX: The Spatial Equilibrium Concept; The Within-City Equilibrium Model; Urbanization and Openness

### **Unit 12: Frictions to Spatial Equilibrium, urban Growth and Place-Based Policy**

11/17: Mobility costs and other frictions. Urban labor markets. Deindustrialization, changes in economic geography, and the China shock

11/19: Place-based policy; Opportunity Zones. Sports teams and stadiums.

**Reading:** O’Sullivan, chapter 8. Institute for Fiscal Studies: David Autor “Lessons from the China Shock”

**Videos:** CitiesX: Agglomeration Economies and Urban Instability; The Welfare Consequences of City Bigness

### **FALL (THANKSGIVING) BREAK**

### **Unit 13: Taxation and Local Government, Suburbanization**

12/1: Fiscal federalism and decentralization. Property and land-value taxation: efficiency and equity considerations.

12/3: Efficient local taxation and the Tiebout model. The geographic distortions of federal income taxes.

**Reading:** O’Sullivan Ch 14, 20 & 21

## **Unit 14: Crime and its Costs; Policing and Punishment**

- 12/8: Facts about death and crime in the U.S. Estimated costs of crime, Chicago theory of the rational criminal and how to deter crime.
- 12/10: Policing, biases, and its alternatives; incarceration, punishment, and effects of protests. 0: Review and Final Remarks

**Reading:** O’Sullivan Ch 23

**Videos:** CitiesX: The Safe City; The Economics of Crime and Riots

**FINAL EXAM on Monday, December 15, 7:00 to 10:00pm. This time/date is NOT flexible.**

### **Campus Policies**

#### **Academic Assistance**

Students are encouraged to utilize the many resources we have throughout campus to assist with academics and visit the [Connie Frank CARE Center](#). We recommend that you seek them out starting early in the semester, not just in times of academic need, in order to develop good study habits and submit work which represents your full academic potential. Many resources are found on the Economics Website including details about the Economics Tutoring Center, Academic Advising, and other academic support options: <https://economics.illinois.edu/academics/undergraduate-program/academic-student-support>

### **Academic Integrity**

According to the Student Code, “It is the responsibility of each student to refrain from infractions of academic The University of Illinois Urbana-Champaign *Student Code* should also be considered as a part of the syllabus. Students should pay particular attention to Article 1, Part 4: Academic Integrity. Read the Code at the following URL: <http://studentcode.illinois.edu/>.

Academic dishonesty may result in a failing grade. Every student is expected to review and abide by the Academic Integrity Policy: <https://studentcode.illinois.edu/article1/part4/1-401/>. Ignorance is not an excuse for any academic dishonesty. It is your responsibility to read this policy to avoid any misunderstanding. Do not hesitate to ask the instructor(s) if you are ever in doubt about what constitutes plagiarism, cheating, or any other breach of academic integrity.

### **Students with Disabilities**

To obtain disability-related academic adjustments and/or auxiliary aids, students with disabilities must contact the course instructor as soon as possible and provide the instructor with a Letter of Academic Accommodations from Disability Resources and Educational Services (DRES). To ensure that disability-related concerns are properly addressed from the beginning, students with disabilities who require assistance to participate in this class should apply for services with DRES and see the instructor as soon as possible. If you need accommodations for any sort of disability, please speak to me after class, or make an appointment to see me or see me during my office hours. DRES provides students with academic accommodations, access, and support services. To contact DRES, you may visit 1207 S. Oak St., Champaign, call 217-333-1970, e-mail [disability@illinois.edu](mailto:disability@illinois.edu) or visit the DRES website at <https://dres.illinois.edu/>. Here is the link for information to apply for services at DRES, <https://dres.illinois.edu/information-before-you-apply/application-process/>.

### **Family Educational Rights and Privacy Act (FERPA)**

Any student who has suppressed their directory information pursuant to Family Educational Rights and Privacy Act (FERPA) should self- identify to the instructor to ensure protection of the privacy of their attendance in this course. See <http://registrar.illinois.edu/ferpa> for more information on FERPA. Student information and records will not be released to anyone other than the student unless the student has provided written approval or as required by law.

### **Mental Health**

Significant stress, mood changes, excessive worry, substance/alcohol misuse or interferences in eating or sleep can have an impact on academic performance, social development, and emotional wellbeing. The University of Illinois offers a variety of confidential services including individual and group counseling, crisis intervention, psychiatric services, and specialized screenings which are covered through the Student Health Fee. If you or someone you know experiences any of the above mental health concerns, it is strongly encouraged to contact or visit any of the University's resources provided below. Getting help is a smart and courageous thing to do for yourself and for those who care about you.

Counseling Center (217) 333-3704

McKinley Health Center (217) 333-2700

National Suicide Prevention Lifeline (800) 273-8255

Rosecrance Crisis Line (217) 359-4141 (available 24/7, 365 days a year)

If you are in immediate danger, call 911.

### **Community of Care**

As members of the Illinois community, we each have a responsibility to express care and concern for one another. If you come across a classmate whose behavior concerns you, whether in regards to their well-being or yours, we encourage you to refer this behavior to the Student Assistance Center (217-333-0050 or <http://odos.illinois.edu/community-of-care/referral/>). Based on your report, the staff in the Student Assistance Center reaches out to students to make sure they have the support they need to be healthy and safe.

Further, as a [Community of Care](#), we want to support you in your overall wellness. We know that students sometimes face challenges that can impact academic performance (examples include mental health concerns, food insecurity, homelessness, personal emergencies). Should you find that you are managing such a challenge and that it is interfering with your coursework, you are encouraged to contact the [Student Assistance Center \(SAC\)](#) in the Office of the Dean of Students for support and referrals to campus and/or community resources.

### **Disruptive Behavior**

Behavior that persistently or grossly interferes with classroom activities is considered disruptive behavior and may be subject to disciplinary action. Such behavior inhibits other students' ability to learn and an instructor's ability to teach. A student responsible for disruptive behavior may be required to leave class pending discussion and resolution of the problem and may be reported to the Office for Student Conflict Resolution (<https://conflictresolution.illinois.edu>; [conflictresolution@illinois.edu](mailto:conflictresolution@illinois.edu); 333-3680) for disciplinary action.

### **Emergency Response Recommendations**

Emergency response recommendations can be found at the following website:

<http://police.illinois.edu/emergency-preparedness/>. I encourage you to review this website and the campus building floor plans website within the first 10 days of class.

<http://police.illinois.edu/emergency-preparedness/building-emergency-actionplans/>.

### **Religious Observances**

It is the policy of the University of Illinois Urbana-Champaign to reasonably accommodate its students' religious beliefs, observances, and practices that conflict with a student's class attendance or participation in a scheduled examination or work requirement, consistent with state and federal law. Students should make requests for accommodation in advance of the conflict to allow time for both consideration of the request and alternate procedures to be prepared. Requests should be directed to the instructor. The Office of the Dean of Students provides an optional resource on its [website](#) to assist students in making such requests.

### **Sexual Misconduct Reporting Obligation**

The University of Illinois is committed to combating sexual misconduct. Faculty and staff members are required to report any instances of sexual misconduct to the University's Title IX and Disability Office. In turn, an individual with the Title IX and Disability Office will provide information about rights and options, including accommodations, support services, the campus disciplinary process, and law enforcement options. A list of the designated University employees who, as counselors, confidential advisors, and medical professionals, do not have this reporting responsibility and can maintain confidentiality, can be found here: <http://www.wecare.illinois.edu/resources/students/#confidential>.

Other information about resources and reporting is available here: <http://wecare.illinois.edu/>.

### **Veterans and Military Students**

As a military-friendly institution, and per federal regulations and Illinois statutes, the University of Illinois Urbana-Champaign has established policies and procedures to accommodate military-connected students. In addition to the support available at the Chez Veterans Center (<https://chezveteranscenter.ahs.illinois.edu/>), members of the National Guard or Reserves and active-duty military personnel with military obligations (e.g., deployments, training, drills) are encouraged to communicate these, in advance whenever possible, to the instructor. The policy for Excused Absences and Departure from the University for U.S. Military or other U.S. National Defense Services can be found at <https://studentcode.illinois.edu/article3/part3/3-313>.

### **Academic Dates and Deadlines**

Students should make note of important academic deadlines for making changes to their courses (add, drop, credit/no-credit, grade replacement, etc.). <https://registrar.illinois.edu/academic-calendars>