

Economics 414: Urban Economics
University of Illinois, Urbana-Champaign
Spring 2021

Professor David Albouy

Office Hours: Tuesdays 5:00 to 6:00p; Fridays, 2:45-3:45; or by appointment

Email: albouy@illinois.edu

Lecture: Tuesday and Thursday, 3:30-4:50pm online

Goals:

- How to apply scientific principles and economic logic to complicated social issues relevant to urban environments.
- Understand better how to interpret statistical and econometric analyses, and where to find basic reliable information.
- Develop an understanding of data and quantitative methods
- Deepen understanding of how decentralized individual behavior in markets affects outcomes
- See how spatial differences in prices serve as a signal for where firms, workers, and households should locate
- Use insights around choice, possibilities, and ethics to make policies around housing, transportation, taxation, crime etc. that better serve individuals and communities.

Prerequisites: Intermediate microeconomics (e.g., ECON 302). Statistics/econometrics useful.

Evaluation

75% Weekly homework/activity OR Pop-quiz

5 points per week allocated across

- Homework assignments assigned at the end of the week (Thursday) due in one week
 - Short questions related to lecture, reading, or viewing
 - Problem set
- In class pop-quizzes (done through Zoom poll), can be either Tuesday or Thursday
 - Cover previous lecture, reading or assigned viewing
 - An easy problem

*Your two lowest weekly grades can be converted from as low as zero (including absences) to 5 by attending office hours twice to discuss class material, readings, or *previous* homework

20% Final exam: roughly equal parts

- Multiple choice
- Short answer
- Long answer

5% Attendance

- Attendance will be taken randomly (not every day)

+5% Participation (extra credit)

- Asking questions/stimulating discussion out loud or in chat
- Turning camera on

Online course considerations

- Class will be less mathematical but cover broader material
- Synchronous (attend all lectures).
 - Recordings only made available upon request and with good reason
- Discussion encouraged, especially out loud, but chat can be very helpful, too.
- Lectures will be broken into two parts, with brief intermission
- Some polls will be merely for fun
- Will have break out rooms and gather.town

*Master's Students must also write a 1,500 word essay based on an urban economics topic to be discussed with me.

**Up to 5% extra credit for attendance, class participation, and pronouncing my name correctly.

Assignments, deadlines, and grades posted on the course website (Blackboard/Compass 2g)

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 valued in this classroom, and are welcome to come to office hours to chat not only about class, but your aspirations in academia, career, life, and intellectual journey.

Required Reading – notes, book chapters, journal articles – **posted online**. (update soon!)

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

Arthur O'Sullivan, *Urban Economics*

Brueckner, Jan K. *Lectures on Urban Economics*

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

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

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

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

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

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

COURSE OUTLINE (29 lectures + final exam)

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

Week 1: Introduction

1/26: Definition and scope of urban economics. Review of syllabus and material. Short Bio

1/28: What makes cities special: sharing, matching, and learning

Videos: Our Urban Age | Edward Glaeser | TEDxBeaconStreet

CitiesX: Agglomeration Economies & Supply and Demand; Utopian Cities;

Reading: O'Sullivan: Chapters 1,2, and 3

Week 2 Urban Economics in the History of Cities

- 2/2 International perspectives on urbanization from pre-history through post-industrialization
2/4 Urbanization in the U.S., Illinois, and Chicago

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

Reading: McDonald & McMillen: Chapter 4

Reading: Todaro and Smith Ch 7.1 to 7.3

Week 3: Economics as a Social Science

- 2/9 Positive Economics. Scientific Method. Schools of thought. Causation vs. Correlation.
2/11 Real experiments: MTO (Moving to Opportunity) and BAM (Becoming a Man)

Videos: Veritasium: “Is Most Published Research Wrong”; Marginal Revolution University: Randomized Trials: The Ideal Weapon; Selection Bias: Will You Make More Going to a Private University? Chicago Booth Review: How slow thinking can help at-risk youth; CitiesX: Moving to Opportunity

Reading: McDonald & McMillen: Chapter 3

Week 4: Normative economics

- 2/16 Normative Economics, Efficiency, Social Welfare, Equity, and Efficiency.
2/18 Compensation, Lump-sum vs. in-kind transfers; Opportunity costs and travel time

Week 5 Cities Through the Lens of Data

- 2/23 How scientists define Cities; urban rank and population; skyscraper height
2/25 Local economies and shocks; segregation by race and income; the “big sort”

PBS NewsHour: How Disadvantaged Neighborhoods Amplify Racial Inequality

Institute for Fiscal Studies: David Autor “Lessons from the China Shock”

Week 6: Understanding Price and Wage Differentials

- 3/2 Hedonic model of housing rents, and worker wages; Omitted variable bias
3/4 Wage differentials by location, gender, race, and education; human capital

Week 7: Discrimination and Segregation

- 3/9 Theories of Discrimination; Audit and correspondence studies
3/11 Model of Neighborhood Segregation and Tipping

Reading: John Yinger, Evidence of Discrimination in Housing Markets

CitiesX: Race and Tipping Models

Week 8: Housing Demand

- 3/16 Housing demand: Price and Costs-of-Living
- 3/18 Mortgage Tax Subsidy, Housing Vouchers; Rent Control

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

Week 9: Housing Production

- 3/23 Housing Production and Supply; Geography and Land-Use Regulation
- 3/25 Housing Durability and Gentrification; Public Housing

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

Week 10: Spatial Equilibrium

- 3/30 Spatial Equilibrium across cities: Quality-of-Life measurement and climate
- 4/2 Spatial Equilibrium inside cities: Monocentric city and land values

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

Week 11: Taxation and Local Government

- 4/6 Taxation: Federal and Local, Land-value taxation
- 4/8 Efficient Local Taxation and the Tiebout Model

Week 12: Urban Growth and Place-Based Policy

- 4/13 Urban Costs and Benefits; Optimal City Size in a System
- 4/15 Place-Based Policy; Opportunity Zones, Sports Stadia

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

Week 13: Transportation

- 4/20 The fundamental law of congestion; highways and sprawl; congestion pricing
- 4/22 Mass transit; cost-benefit analyses

CitiesX: The Rise of suburbs

Week 14: Crime

- 4/27 Chicago theory of crime; estimated costs of crime
- 4/29 Policing and its alternatives; incarceration and optimal punishment

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

Week 15: Conclusion

- 5/2 Five Axioms of Urban Economics; Final Remarks

