

**Economics 414: Urban Economics**  
University of Illinois, Urbana-Champaign  
Spring 2022

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**Lecture:** Tuesday and Thursday, 2:00 – 3:30 pm 138 Henry Administration Building

**Goals:**

- How to apply scientific principles and economic logic to complicated social issues relevant to urban environments.
- Be familiar with economic facts and history of U.S. and cities
- 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**

**70%** 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 in class or through Zoom poll), can be either Tuesday or Thursday
  - Cover previous lecture, reading or assigned viewing
  - Usually relatively easy

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

**25%** 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

\*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**.

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

Arthur O'Sullivan, *Urban Economics (currently 9<sup>th</sup> edition)*

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 and David Cutler *Survival of the City*

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

\*\*Cunningham, Scott *Causal Inference*

\*\*Gruber, Jonathan *Public Finance and Public Policy*

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

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

*Attend all classes! All lecture times are approximate. Topics by week are more precise than topics by day. Some topics may be dropped if time is short.*

### **Week 1: Introduction**

- 1/18: Definition and scope of urban economics. Review of syllabus and material; COVID  
1/20: Key Concepts in Urban Economics. What is a City? Zipf's Laws.

**Reading:** O'Sullivan: Chapters 1 and 2

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

### **Week 2: Economic Methodology, Schools of Thought, Urban Experiments**

- 1/25 Economic Methodology, Scientific Ethics, Pitfalls;,Real experiments: MTO (Moving to Opportunity) and BAM (Becoming a Man).  
1/27 Heterodox perspectives: Marxism, Post-Modernism, Conservatism

**Reading:** Gruber, Chapter 3; Cunningham, chapter 3 (Directed Acyclic Graphs) McDonald & McMillen: chapter 3

**Videos:** Chicago Booth Review: How slow thinking can help at-risk youth; CitiesX: Moving to Opportunity; Joshua Angrist "Nobel Lecture 2021" \*Marginal Revolution University: Randomized Trials: The Ideal Weapon; Selection Bias: Will You Make More Going to a Private University? Veritasium: "Is Most Published Research Wrong"

### **Week 3: Normative Theoretical Background**

- 2/1 Normative Economics: efficiency, social welfare, equity  
2/3 Lump-sum vs. in-kind transfers. Welfare Theorems.

**Reading:** Gruber, chapter 2; Stiglitz and Rosengard, chapter 7

### **Week 4: Agglomeration Economies and Diseconomies**

- 2/8: Trading and Factory Towns. Agglomeration Economies  
2/10: Diseconomies of scale, club goods, optimal city size, and overcrowding

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

### **Week 5: Urban Economics in the History of Cities**

- 2/15 International perspectives on urbanization from pre-history through post-industrialization  
2/17 Urbanization in the U.S., Illinois, and Chicago. Cities escape the Malthusian trap.

**Reading:** O'Sullivan, chapters 8 and 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.

**Week 6: Understanding Price and Wage Differentials**

- 2/22 Hedonic model of housing rents, and worker wages; Omitted variable bias
- 2/24 Wage differentials by location, gender, race, and education; human capital

**Reading:** Smith, Book 1, chapter 10 *The Wealth of Nations: Wages and Profits*.

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

**Week 7: Discrimination and Segregation**

- 3/1 Theories of Discrimination; Audit and correspondence studies
- 3/3 Segregation Measures; Model of Neighborhood Segregation and Tipping

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

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

**Week 8: Transportation**

- 3/8 The fundamental law of congestion; highways and sprawl; congestion pricing
- 3/10 Mass transit; cost-benefit analyses

**Reading** O’Sullivan, chapters 18 and 19

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

**Week 9: Housing Demand**

- 3/22 Housing demand: Price and Costs-of-Living
- 3/24 Mortgage Tax Subsidy, Housing Vouchers; Rent Control

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

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

**Week 10: Housing Production**

- 3/29 Housing Production and Supply; Geography and Land-Use Regulation
- 3/31 Housing Durability and Gentrification; Public Housing

**Reading:** Greun: chapters 1 and 2. O’Sullivan, chapters 16, 17; Nicholson: Production and Cost Theory

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

**Week 11: Spatial Equilibrium**

- 4/5 Spatial Equilibrium across cities: Quality-of-Life measurement and climate
- 4/7 Spatial Equilibrium inside cities: Monocentric city and land values; Skyscraper heights

**Reading:** O’Sullivan, chapters 10, 11, 13

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

**Week 12: Taxation and Local Government, Suburbanization**

- 4/12 Taxation: Federal and Local, Land-value taxation
- 4/14 Efficient Local Taxation and the Tiebout Model

**Reading:** O’Sullivan: ch. 14, 20, 21

**Week 13: Urban Growth and Place-Based Policy**

- 4/19 Urban Labor Markets: Deindustrialization and the China shock
- 4/21 Place-Based Policy; Opportunity Zones, Sports Stadia

**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

**Week 14: Crime**

- 4/26 Chicago theory of crime; estimated costs of crime
- 4/28 Policing and its alternatives; incarceration and optimal punishment

**Reading:** O’Sullivan, chapter 23

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

**Week 15: Conclusion**

- 5/3 Review and Final Remarks