Econ 414: Urban Economics Syllabus – Please read carefully and consult regularly

Economics 414: Urban Economics
University of Illinois, Urbana-Champaign
Spring 2023

Professor David Albouy
Email: albouy@illinois.edu
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Lecture: Tuesday and Thursday, 3:30 – 4:50 pm 123 David Kinley Hall

Office Hours: Wednesday, 11:00 to 11:50 in my office (225A DKH)

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 the United States and cities
- Understand better how to interpret statistical and econometric analyses, and where to find basic reliable information.
- Deepen understanding of how decentralized individual behavior in markets affects economic outcomes
- See how spatial differences in prices serve as a signal for where firms, workers, and households may want to locate
- Consider the welfare effects of different policies, or lack thereof, around housing, transportation, taxation, crime etc.

Prerequisites: Intermediate microeconomics (e.g., ECON 302). Statistics/econometrics (e.g. 203)

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
     o Short questions related to lecture, reading, or viewing
     o Problem set
   - In class pop-quizzes (done in class or through Zoom poll), can be either Tuesday or Thursday
     o Cover previous lecture, reading or assigned viewing
     o Usually relatively easy
*Your two lowest weekly grades can be converted from as low as zero (including absences) to 5 by attending office hours to discuss class material, readings, or previous homework

30% Final exam: roughly equal parts (May 9, 1:30pm)
   - Multiple choice
   - Short answer
   - Long answer

+5% Attendance and Participation
   - Attendance will be taken randomly (not every day)
   - Asking questions/stimulating discussion in class
   - Coming to office hours
   - Pronouncing my name correctly
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/discussion of the paper for 15 minutes on Reading Day (May 4)

Assignments, deadlines, and grades posted on the course website (Canvas)

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.

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 will share with you many of my own published findings. 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 topics such as graduate programs.

Required Reading – notes, book chapters, journal articles – posted online.
Arthur O’Sullivan, Urban Economics (currently 9th edition) – you should buy

Additional References (Some book chapters will be taken from these.)
Brueckner, Jan K. Lectures on Urban Economics
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.
**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

1/17: Definition and scope of urban economics. Review of syllabus and material; COVID

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

1/24 Economic Methodology, Scientific Ethics, Pitfalls; Real experiments: MTO (Moving to Opportunity) and BAM (Becoming a Man).
1/26 Heterodox perspectives: Marxism, Post-Modernism, Conservatism

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

Week 3: Normative Theoretical Background

1/31 Normative Economics: efficiency, social welfare, equity
2/2 Lump-sum vs. in-kind transfers. Welfare Theorems.

Reading: Gruber, chapter 3; Stiglitz and Rosengard, chapter 7 (extra)

Week 4: Agglomeration Economies and Diseconomies

2/7: Trading and Factory Towns. Agglomeration Economies
2/9: 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

2/14 International perspectives on urbanization from pre-history through post-industrialization

Reading: O’Sullivan, chapters 8 and 9; Todaro and Smith Ch 7.1 to 7.3
Week 6: Understanding Price and Wage Differentials
2/21 Hedonic model of housing rents, and worker wages; Omitted variable bias
2/23 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
2/28 Theories of Discrimination; Audit and correspondence studies
3/2 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
3/7 The fundamental law of congestion; highways and sprawl; congestion pricing
3/9 Mass transit; cost-benefit analyses

Reading O’Sullivan, chapters 18 and 19
Videos: CitiesX: The Rise of suburbs

SPRING BREAK (3/11 TO 3/19)

Week 9: Housing Demand
3/21 Housing demand: Price and Costs-of-Living
3/23 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
3/28 Housing Production and Supply; Geography and Land-Use Regulation
3/30 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
4/4 Spatial Equilibrium across cities: Quality-of-Life measurement and climate
4/6 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**

4/11  Taxation: Federal and Local, Land-value taxation  
4/13  Efficient Local Taxation and the Tiebout Model

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

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

4/18  Urban Labor Markets: Deindustrialization and the China shock  
4/20  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**

4/25  Chicago theory of crime; estimated costs of crime  
4/27  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**

5/2  Review and Final Remarks

**FINAL EXAM ON MAY 10, 8 TO 11 A.M.**