

**Economics 414: Urban Economics**  
University of Illinois, Urbana-Champaign  
Spring 2024

**Professor David Albouy**

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Office: 225A David Kinley Hall

**Lecture:** Tuesday and Thursday, 11:00 – 12:20 pm 123 David Kinley Hall (DKH)

**Office Hours:** Wednesday, 11:00 to 11:50 and Thursday, 2:00 to 2:50pm, 225A DKH

**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**

- 70%** Weekly EITHER homework/activity OR quiz: 5 points/week x 14 weeks
- a. Homework assignments assigned at end of the week (Thursday) due one week later
    - Short questions related to lecture, reading, or viewing
  - b. In class quiz, usually Thursday, on material from the week before
    - Cover previous lecture, reading or assigned viewing
    - May use ONE PAGE of notes (front and back) in OWN HANDWRITING
- \*Absences for quizzes count as zeroes  
\*\*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 (May 9, 7:00pm): roughly equal parts multiple choice, short answer & long answer questions
- +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”)

Reading is a complement, not a substitute for lecture. This course is not “taught out of a book” **Class attendance and taking detailed note-taking is essential.** Material not on the slides, either from the book or presented verbally, may be on assignments, quizzes, and exams. In fact these will stress material that are most discussed.

\*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 (May 1)

**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 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*

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

.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*

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**

- 1/16: Definition and scope of urban economics. Review of syllabus and material  
1/18: 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**

- 1/23 Economic Methodology, Scientific Ethics, Pitfalls; Real experiments: MTO (Moving to Opportunity) and BAM (Becoming a Man).  
1/25 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**

- 1/30 Normative Economics: efficiency, social welfare, equity  
2/1 Lump-sum vs. in-kind transfers. Welfare Theorems.

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

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

- 2/6: Trading and Factory Towns. Agglomeration Economies  
2/8: 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**

- 2/13 International perspectives on urbanization from pre-history through post-industrialization  
2/15\* 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**

- 2/20 Hedonic model of housing rents, and worker wages; Omitted variable bias
- 2/22 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**

- 2/27 Theories of Discrimination; Audit and correspondence studies
- 2/29 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**

- 3/5 The fundamental law of congestion; highways and sprawl; congestion pricing
- 3/7 Mass transit; cost-benefit analyses

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

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

**SPRING BREAK (3/9 TO 3/17)**

**Week 9: Housing Demand**

- 3/19 Housing demand: Price and Costs-of-Living
- 3/21 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**

- 3/26 Housing Production and Supply; Geography and Land-Use Regulation
- 3/28 Housing Durability and Gentrification; Public Housing

**Reading:** Gruen: 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**

- 4/2 Spatial Equilibrium across cities: Quality-of-Life measurement and climate
- 4/4 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**

4/9 Taxation: Federal and Local, Land-value taxation

4/11 Efficient Local Taxation and the Tiebout Model

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

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

4/16 Urban Labor Markets: Deindustrialization and the China shock

4/18 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**

4/23 Chicago theory of crime; estimated costs of crime

4/25 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**

4/30 Review and Final Remarks

**FINAL EXAM ON THURSDAY, MAY 9 from 7:00-10:00 p.m.**