

**Economics 414: Urban Economics**  
University of Illinois, Urbana-Champaign  
Spring 2019

**Professor David Albouy**

Office: 218 David Kinley Hall (DKH)

Office Hours: Tuesday, 5:00-6:00pm, Wednesday 11:00am-12:20 pm

Email: [albouy@illinois.edu](mailto:albouy@illinois.edu)

**Lecture:** Tuesday and Thursday, 3:30-4:50pm, 215B David Kinley Hall

**Description:** The economics of cities, especially in housing, labor, and transportation. Topics include rent and wage determination; the location decisions of households and firms, quality of life amenities, agglomeration economies, and optimal city size; economics and policy of housing, transportation, local government, land use, discrimination, segregation, and crime. Takes historical and contemporary views, applying theory and empirical methods.

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

**Grading**

20% 1<sup>st</sup> Midterm exam (in class Feb 28)

20% 2<sup>nd</sup> Midterm exam (in class Apr 9)

30% Final exam (May 3, 8:00-11am, cumulative)

Exams are based primarily on material taught in lecture. However, some questions may refer to material only explained fully in the required reading.

30% Six assignments (Feb 7, Feb 21, Mar 7, Mar 28, Apr 11, and Apr 25), each worth 5%:

5% Strong effort with mostly correct answers

4 Good effort with many correct answers

3 Mediocre effort with many wrong answers.

2 Sad effort/very incomplete, but at least the questions are written down.

1 A sheet with just your name on it and the assignment number (!)

0% Missing or late - *please hand in whatever you have!*

\*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 special needs or your midterm conflicts with a midterm for another course. 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 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.

**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)

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

### **COURSE OUTLINE (26 lectures + 2 midterms + 1 review session + final)**

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

#### **1) Introduction to Urban Economics (2 Lectures)**

- 1/15 Definition and scope of urban economics. Schools of thought.. Equity vs. Efficiency. 5 Axioms. Market failures.
- 1/17 Benefits of Lump-Sum of In-Kind Transfers Density, urbanization, and the definition of a city and metropolitan area; political districts. Zipf’s Law; the land of opportunity.

#### **2) An Overview of Urban Economic History (3.5 Lectures)**

- 1/22 Early Cities Natural advantages, public goods, “Urban giants” and trading cities
- 1/24 Industrialization, mass production sanitation, infrastructure, and suburbanization. Zoning. Immigration, Great migration, and “white flight” from city centers.
- 1/29 Urban Growth. Development of Illinois, Chicago, Champaign, and global cities

#### **3) Hedonic Analysis of Rents and Wages, Segregation and Discrimination (3.5 Lectures)**

- 2/5 Owning versus renting. Homeownership and subsidies. The user cost of housing: capital costs and gains, maintenance, depreciation, and taxes. Rent: housing characteristics, and location within and across metro areas.
- 2/7 Housing segregation by race, income, and other characteristics. Audit & correspondence studies (e.g. Craigslist)
- 2/12 Wages: education, experience, race, gender, and location. Theory and evidence of on wage differences, and discrimination from Craigslist and Uber.

#### **4) Households, Housing Consumption, and Location Decisions (3 Lectures)**

- 2/14 Households with local and tradable goods; housing demand, compensated and uncompensated demand functions; price and income elasticity; how housing consumption varies by city.
- 2/19 Indirect utility functions, cost-of-living/affordability; Theory of locational equilibrium across cities and neighborhoods. Compensating differentials.
- 2/21 Measuring local quality of life across and within U.S cities. The value of specific amenities: safety, schools, activity. The amenity costs and benefits of climate change by area.

**\*\*\*Midterm Exam on sections (1)-(4), scheduled in class on Thursday, Feb 28\*\*\***

**5) Firms, Production, and Firm Location ac Cities (2 Lectures)**

- 2/26 Firms with fixed and variable inputs, labor demand, housing supply. Measuring trade-productivity
- 3/5 How housing costs by city with land values, construction costs & geography. Housing productivity and the costs and benefits of land-use regulation. Distinguishing how housing prices rise from quality of life, trade-productivity and housing productivity. Benefits of public infrastructure investment.

**6) Agglomeration, Urban Growth/Decline, and Place-Based Policy (2 Lectures)**

- 3/7 Why Do Cities Exist? Advantages of urbanization: learning, matching, and sharing.
- 3/12 Local demand changes; local effects from the decline of manufacturing and import competition (a.k.a. the “China Shock”). Do local economic development programs benefit locals? Model Cities and Empowerment Zones. Economic base theory and the multiplier; are sports teams and stadia that great for local economic development? Federal tax and transfer policy across cities and regions. Land taxes and Henry George.

**7) Urban Land Rent & Land-Use Patterns; Optimal City Size (3 Lectures)**

- 3/14 The traditional mono-centric city model. Closed and open cities. Bid-rent curves for households, offices, manufacturing, and agriculture. How do land values vary across cities and within cities? How to infer land values
- 3/26 Welfare benefits of urban migration in developed and developing countries. Efficient population distribution: are cities too big or too small?

**8) Urban Transportation (2 Lectures)**

- 3/28 Commuting patterns and modes of transportation. Private commuting costs Automobiles and externalities from congestion, pollution, accidents, and other sources
- 4/2 Optimal congestion tolling; peak/surge pricing; mass transit. Ride-sharing.

**\*\*\*Midterm Exam on sections (5)-(8), scheduled in class on Tuesday, April 9 \*\*\***

**9) Inside the City: Local Government and Neighborhood Choice (2 Lectures)**

- 4/4 The Tiebout model of local public goods, sorting, and benefit taxation; fiscal zoning
- 4/11 Suburbanization and sprawl; tipping points and “flight from blight.”

**9) Housing Price Dynamics Housing Supply (1 Lectures)**

- 4/16 Housing price indices, price-rent ratios, and the housing bubble. Urban decline and durable housing: why does anyone still live in Detroit?

**10) Housing Policy and Urban Poverty (2 Lectures)**

- 4/18 Rent control, allocative, match, and production, inefficiency. Lump-sum versus in-kind transfers. Public housing, housing vouchers, and low-income housing tax credits
- 4/23 Neighborhood effects, peer effects, and broken windows. Spatial mismatch. Exclusionary vs inclusionary zoning. Moving to Opportunity experiment. Social mobility and neighborhoods. AirBnb

**11) Crime, Police, and Community (1.5 Lectures)**

4/25 The rise and fall (and rise?) of urban crime – what can we explain? Economic theory of criminal behavior; optimal deterrence and sentencing. Lowering crime with policy. The costs of crime, optimal policing, and eyes on the street (Safe Passage in Chicago). Drugs. More guns = more crime or less crime?

**4/30 Make-up Class, Final Exam Review, or Class Discussion Outing**

**\*\*\*CUMULATIVE Final Exam on ALL of the above, 8-11am, Friday, May 3\*\*\***