

University of Illinois
Economics 414: Urban Economics
Spring 2017
Monday and Wednesday, 12:30 – 1:50
329 Armory

Instructor:

Professor Daniel McMillen
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Office Hours:

Monday, 2:00 – 3:30
Tuesday & Thursday, 1:30 – 3:00

Course Outline and Objectives:

The course is divided into three parts. The first is Urban Growth. This part of the course analyzes the economic forces that cause cities to form and grow. It explains where cities develop, why some are large and others are small, and how many cities exist in a region. The second part of the course develops the Monocentric City Model, which explains the equilibrium land rent and land-use patterns within a city. The final part of the course focuses on urban problems such as poverty, inadequate housing, transportation, and local public finance.

By the end of the course, the student should have a basic familiarity with the stylized facts of cities and urban land markets, and should understand the theoretical and empirical tools used to analyze urban land markets and public policy issues.

Prerequisite:

Econ 102 or equivalent; Econ 302 is strongly recommended. A basic course in statistics or econometrics will be helpful in understanding the material, but is not required.

Readings:

The required text is *Urban Economics and Real Estate*, by John McDonald and Daniel McMillen. For those who like to see alternative treatments of a topic, *Urban Economics* by Arthur O'Sullivan is another good text.

Academic Integrity:

Violations of academic integrity as given in the Code of Policies and Regulations will be taken extremely seriously, and students found cheating in the course (or helping others to cheat) will be penalized according to the Code's guidelines.

Disability Accommodations: To obtain disability-related academic adjustments and/or auxiliary aids, students with disabilities must contact the course instructor and the Disability Resources and Educational Services (DRES) as soon as possible. To contact DRES you may visit 1207 S. Oak St., Champaign, call 333-4603 (V/TTY), or e-mail a message to disability@uiuc.edu.

Course Requirements and Grading:

Grades will be based on two mid-terms and a final, and a group paper. The exams will comprise short-answer essay questions and problem-solving using the tools developed in class. Exam questions are based primarily on course lectures, so regular attendance is helpful for earning a good grade. Questions tend to be extensions of the problems covered in class, with emphasis placed on diagrammatical analysis.

Grades are based on a combination of an absolute scale and a curve. Except in situations of poor attendance, questions of academic integrity, and other unusual circumstances, the following is the *strictest* grading scale that might be applied:

Letter Grade	Percentage of Total Possible Points
A	[85% - 100%]
B	[75% - 85%)
C	[65% - 75%)
D	[55% - 65%)

The requirements for a letter grade may be lowered based on the distribution of scores at the end of the semester. Any change in the curve will be applied equally to all students. Plus or minus grades are reserved for point totals falling near natural breaks in the point distribution. Attendance and grade trends play major roles in determining plus or minus grades.

Exams:

Midterm 1 (1/3):	Wednesday, February 22
Midterm 2 (1/3):	11:00-12:20, Wednesday, April 5
Final (1/3):	University scheduled time and location.

The midterm exams will be held in the usual classroom at regular class times. The location of the final exam will be announced later this term. These are the only times and dates when the exams may be taken. Please see me well in advance of an exam if university athletic events, job interviews, etc., require you to be away during an exam. There are no circumstances under which you will be permitted to make up a missed exam unless (1) I have approved the absence *prior* to the exam or (2) you have contacted me *prior* to the exam to let me know of an emergency. Having a large number of exams in a short time is *not* a valid reason for changing an exam date. An emergency, illness, etc., must be verified in writing by the Emergency Dean or the missed exam will result in a grade of zero.

Course Outline

Week 1. January 18. Introduction. Why do Cities Exist?

Week 2. January 23, 25. Economic Reasons for Cities; Firm Location

McDonald and McMillen, Chapters 4 and 5

Suggested Reading: Saxenian, AnnaLee, 1996, "Inside-Out: Regional Networks and Industrial Adaptation in Silicon Valley and Route 128," *Cityscape: A Journal of Policy Development and Research*, 2, 41-60.

Week 3. January 30, February 1. Central Place Theory, Land Rent

McDonald and McMillen, Chapter 6

Suggested Reading: Bertaud, Alain, "The Spatial Organization of Cities," available at http://alainbertaud.com/wp-content/uploads/2013/06/AB_The_spatial_organization_of_cities_Version_31.pdf

Week 4. February 6, 8. Monocentric City Model – Theory

McDonald and McMillen, Chapters 6 and 7

Week 5. February 13, 15. Monocentric City Model – Theory

McDonald and McMillen, Chapter 7

Suggested Reading: Glaeser, Edward L, "The Economic Approach to Cities," http://scholar.harvard.edu/files/glaeser/files/the_economic_approach_to_cities.pdf

Week 6. February 20, 22: Review for Exam

February 22: Midterm Exam 1

Week 7. February 27, March 1. Monocentric City Model – Empirics

McDonald and McMillen, Chapter 8

Suggested Reading: Campante, Felipe and Edward L. Glaeser, “Yet Another Tale of Two Cities: Buenos Aires and Chicago,”

http://scholar.harvard.edu/files/glaeser/files/yet_another_tale_of_two_cities_buenos_aires_and_chicago.pdf

Week 8. March 6, 8. Housing in Urban Areas

McDonald and McMillen, Chapter 10

Week 9. March 13, 15. Housing Policy

McDonald and McMillen, Chapter 11

Suggested Readings:

Popkin, Susan J., Margery A. Turner, and Martha Burt, “Rebuilding Affordable Housing in New Orleans: The Challenge of Creating Inclusive Communities,” Urban Institute: http://www.urban.org/UploadedPDF/900914_affordable_housing.pdf

Abravanel, Martin D., Diane Levy, and Margaret McFarland, “The Uncharted, Uncertain Future of Hope VI Redevelopments: The Case of Assessing Project Sustainability,” Urban Institute: http://www.urban.org/UploadedPDF/411935_uncharteduncertain.pdf

Spring Break: March 20, 22.

Week 10. March 27, 29. Zoning and Environmental Issues

Suggested Reading: Zheng, Siqu, and Matthew Kahn, “Understanding China’s Urban Pollution Dynamics,” *Journal of Economic Perspectives* 51 (2013), 731-772.

Week 11. April 3, 5: Review for Exam

April 5: Midterm Exam 2

Week 12. April 10, 12. Local Government

McDonald and McMillen, Chapter 14

Suggested Reading: Tiebout, Charles M., "A Pure Theory of Local Expenditures," 1956, *Journal of Political Economy*, 64, 416-424.

Week 13. April 17, 19. The Property Tax

McDonald and McMillen, Chapter 14

Suggested Reading: Dye, Richard F. and Daniel P. McMillen, "Surprise! An Unintended Consequence of Assessment Limitations," *Land Lines*, Lincoln Institute of Land Policy, http://www.lincolninst.edu/pubs/1260_Surprise-

Week 14. April 24, 26. Transportation

McDonald and McMillen, Chapter 16

Suggested Readings:

Leape, Jonathan, "The London Congestion Charge," 2006, *Journal of Economic Perspectives*, 20, 157-176.

Small, Kenneth A., "Urban Transportation Policy," in Robert P. Inman, ed., "*The Urban Enigma: City Problems, City Prospects*." Available at: http://www.socsci.uci.edu/~ksmall/Urban_Transp_Policy.pdf

Week 15. May 1, 3. Poverty in Urban Areas

McDonald and McMillen, Chapters 17-18

Suggested Readings:

Ananat, Elizabeth Oltmans, "The Wrong Side(s) of the Tracks: The Causal Effects of Racial Segregation on Urban Poverty and Inequality," *American Economic Journal: Applied Economics* 3 (2011), 34-66.

Lindley, Joanne, and Stephen Machin, "Spatial Changes in Labour Market Inequality," *Journal of Urban Economics* 79 (2014), 121-138.

Final. Held at the regularly scheduled time during final exam week. Date and location to be announced.