

**Economics 414: Urban Economics**  
University of Illinois, Urbana-Champaign  
Fall 2016

**Professor David Albouy**

Office: 216 David Kinley Hall (DKH)

Office Hours: Tuesday 3:30-4:50 pm

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**Lecture:** Monday and Wednesday: 2:00-3:20pm, 113 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 Sep 28)

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

30% Final exam (Dec 13, 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 (Sep 14, Sep 28, Oct 12, Oct 26, Nov 16, and Dec 7), 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!*

\*\*Up to 5% extra credit for attendance, class participation, and pronouncing my name correctly.

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

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.

**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 (3 Lectures)**

- 8/22 Definition and scope of urban economics. Olympics.
- 8/24 Urban history: from Babylon to Tokyo. “Urban giants” and centralized power.
- 8/29 Density, urbanization, and the definition of a city and metropolitan area; political districts. Zipf’s Law; the land of opportunity;

**2) Theory of Households, Firms, and Location Decisions across Cities (3 Lectures)**

- 8/31 Microeconomic Review: households with local and tradable goods; housing demand, price and income elasticity; indirect utility functions, cost-of-living index and an affordability index.
- 9/7 Microeconomic Review: firms with fixed and variable inputs, labor demand, housing supply, unit cost functions.
- 9/12 Theory of locational equilibrium across cities and neighborhoods. Compensating differentials.

**3) Hedonic Analysis of Rents and Wages, Segregation and Discrimination (2 Lectures)**

- 9/14 Rent: housing characteristics, and location across and within metropolitan areas. Housing segregation by race, income, and other characteristics.
- 9/19 Wages: education, experience, race, gender, and location. Theory and evidence of discrimination.

**4) Empirical Analysis of Cities (2 Lectures)**

- 9/21 Measuring local quality of life and productivity across and within U.S cities. The value of specific amenities: safety, schools, activity. Benefits of public infrastructure investment.
- 9/26 The amenity costs and benefits of climate change by area. Housing productivity and the costs and benefits of land-use regulation

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

**5) Agglomeration, Urban Growth, Place-Based Policy, and City Size (4 Lectures)**

- 10/3 Advantages of urbanization: learning, matching, and sharing.
- 10/5 Economic base theory and the multiplier; Do local economic development programs benefit locals? Are sports teams and stadia that great for local economic development? Model Cities and Empowerment Zones
- 10/10 Federal tax and transfer policy across cities and regions. Land taxes and Henry George.
- 10/12 Welfare benefits of urban migration in developed and developing countries. Efficient population distribution: are cities too big or too small?

**6) Inside the City: Urban Land Rent and Land-Use Patterns (2 Lectures)**

- 10/17 The traditional mono-centric city model. Closed and open cities.

- 10/19 Micro-foundations of urban costs. Bid-rent curves for households, offices, and manufacturing, and cities as a whole.

**7) Urban Transportation (3 Lectures)**

- 10/24 Commuting patterns and modes of transportation. Private commuting costs Automobiles and externalities from congestion, pollution, accidents, and other sources  
10/26 Optimal congestion tolling; mass transit

**8) Inside the City: Local Government, Neighborhood Choice (2 Lectures)**

- 11/31 The Tiebout model of local public goods, sorting, and benefit taxation; fiscal zoning  
11/2 Suburbanization and sprawl; tipping points and “flight from blight.”

**9) Housing Prices and Housing Supply (2 Lectures)**

- 11/7 What makes housing special? Determinants of housing supply and demand. Urban decline and durable housing: why does anyone still live in Detroit?

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

- 11/14 The user cost of housing: capital costs and gains, maintenance, depreciation, and taxes. Owning versus renting. Housing price indices, price-rent ratios, and the housing bubble.

**10) Housing Policy and Urban Poverty (2.5 Lectures)**

- 11/17 Rent control and its unintended consequences. Public housing, housing vouchers, and low-income housing tax credits  
11/28 Neighborhood effects, peer effects, and broken windows. Spatial mismatch. Housing supply restrictions and exclusionary zoning. Inclusionary zoning. Moving to Opportunity experiment. Social mobility and neighborhoods.

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

- 11/30 Economic theory of criminal behavior; optimal deterrence and sentencing;  
12/5 More police, or more guns = more crime or less crime? The rise and fall of urban crime – can we explain both? Lowering crime with interventions and schooling.

**12/7 Final Exam Review**

**\*\*\*CUMULATIVE Final Exam on ALL of the above, 8-11am, Tuesday, December 13\*\*\***