

# Urban Economics

Econ 8300, Fall 2012

## Course Synopsis

This course gives students an advanced level of exposure to current and core issues in the study of cities as economic objects. First, the theories of the price of land and spatial equilibrium are discussed. Then, using this theory as background, the course surveys important topics in urban economics, including household location decisions, real estate pricing and construction, transportation, labor productivity, and city growth and decline. Through the class format and the inclusion of a course-long project, students are encouraged to consider current issues of economic research and policy making.

This syllabus provides a general plan for the course; deviations may be necessary.

Prerequisites: Econ 8080 (Economics of the Public Sector) or Econ 3910 (Microeconomics), or instructor approval.

Meeting schedule: Thursdays, 1:00-3:30 pm, General Classroom Building (GCB) 427

## Instructor Information

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or by appointment

## Learning Objectives

By the end of this course, students should be able to:

1. explain the reasons why economic agents co-locate in cities.
2. explain and apply theories of land price determination, including the bid-rent theory and monocentric model, hedonic price theory, and compensating differentials.
3. explain theories of the functioning of real estate markets in cities.
4. explain how neighborhoods form from households of similar attributes.
5. explain how and to what extent households influence their neighbors' economic outcomes.
6. explain how transportation technology affects the spatial formation of an economic area.
7. explain the effects of spatial proximity on labor market functioning and outcomes.
8. explain how policy might address current urban problems and affect the growth and decline of cities in the future.
9. demonstrate competence in a specific topic related to the student's professional goals.

## Grading and Evaluation

The course grade will consist of a final exam (35%), a course-long project (35%), a brief book review (10%), and class participation (20%). (I reserve the right to scale exam scores according to moments of the grade distribution.) For due dates, see Important Dates and the Schedule of Topics.

**Final exam.** The final will cover class lectures and readings marked with a dot or star.

**Course project.** Students will form groups of 3-5<sup>1</sup> and choose a project from the options below. Early in the semester, students turn in a project proposal detailing their group, their intended topic and why they believe the project will be a useful learning experience to them. At the end of the semester, students will present their motivations, methods, and results in class, in a presentation of about 20 minutes. Choose one of the following:

*Policy proposal.* Make an argument for or against a specific urban policy (actually debated or proposed by your group). Examples include a transportation project, local tax change, building or zoning code change, school assignment policy, or poverty alleviation program. Make an argument for the merits of the proposal based on what the expected impacts of the policy will be on the city in terms of internal business and/or household location, firm and household in- and out-migration, local labor productivity, and other salient features of the policy. Students will be evaluated on the thoroughness and persuasiveness of their argument, and their use of concepts learned in the class.

*Firm proposal.* Make a proposal for a particular firm (or class of firms) to locate in Atlanta (or another city of your choosing). Explain why the firm would benefit from locating there, and why the city should be interested in the firm's location as well. Students will be evaluated on the thoroughness and persuasiveness of their argument, and their use of concepts learned in the class.

*Comparison project.* Compare cities (domestic or internationally) on some local feature such as labor productivity, density, transportation network, building/housing stock, housing price behavior, population growth, demographic or skill profile, energy usage, or some other interesting feature of the student's choice. The analysis should be empirically driven (i.e. acquire and use data). Explain why the topic merits future research. Students will be evaluated on their thoroughness of empirical investigation and on their ability to motivate future research. (Students choosing this project are encouraged to consult with me some time before the project is presented. Also, students choosing this option are permitted to work in smaller groups if desired.)

*Literature review.* Choose an issue of current research in urban economics. Review no fewer than four peer-reviewed publications and at least one working paper or seminar (if you attend) to discuss the state of the art in the topic. Students will be evaluated on their ability to concisely describe the literature and evaluate its accomplishments shortcomings. (Students choosing this project are strongly encouraged to consult with me some time before the project is presented. Also, students choosing this option should work alone, unless I explicitly give you permission to do joint work.)

*Other.* Proposals for other projects will be entertained. Students must explain why the project relates and how it is valuable to their learning in the field.

**Book review.** We will be reading and discussing Glaeser's *Triumph of the City*. Prior to the discussion day, write a critical review of the book where you (1) summarize the theme of the book (not to exceed two paragraphs), (2) discuss what you think are the two most important policy implications/suggestions from the book and why, and (3) discuss 1-2 criticisms of the book's suggestions and/or the evidence behind them. A suggested review length is 3-5 pages (double spaced), but students will not be graded on length.

**Class participation.** You are expected to read and discuss in class several papers as marked below with a star. Students are encouraged toward authentic participation in the discussion of ideas. To that end, students who do not participate in discussions will be penalized.

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<sup>1</sup>Some exceptions apply

## Administrative Notes

**Attendance.** Students are expected to attend every class meeting. Part of the student's grade is based on the participation in discussion of readings. Accommodation may be made for students with bona fide excuses; consult with me if you are experiencing a hardship (such as illness or family emergency) that prevents you from attending class. The university's attendance policy is available at:

[http://webdb.gsu.edu/policies/policy\\_index.cfm?view\\_policy=4125](http://webdb.gsu.edu/policies/policy_index.cfm?view_policy=4125)

or *click here*

**Make-up examination policy.** There are no makeups for the final exam or project presentation.

**Policy on Academic Honesty.** All students are expected to adhere to the highest standards of academic honesty. Each student is responsible for knowing and following the academic honesty policies of Georgia State University (See Policy on Academic Honesty (Section 409)).

<http://www2.gsu.edu/~wwwfhh/sec409.html>

or *click here*

All in-class exams in the course are closed-notes, closed-books exams. All electronic communication devices are to be turned off and made inaccessible during lectures and exams. It is each student's responsibility to avoid any activity that suggests cheating on a test. Projects and literature reviews are expected to be original works with appropriate credit given to the work of others. Note that any student suspected of academic dishonesty will be referred to the Deans Office and prosecuted to the fullest extent of University policy.

Video recording and picture taking are prohibited during lectures and exams. Audio recording of lectures is allowed only with the permission of the instructor.

**Course evaluation.** Your constructive assessment of this course plays an indispensable role in shaping education at Georgia State. Upon completing the course, please take the time to fill out the online course evaluation.

**Accommodation.** Students who wish to request accommodation for a disability may do so by registering with the Office of Disability Services. Students may only be accommodated upon issuance by the Office of Disability Services of a signed Accommodation Plan and are responsible for providing a copy of that plan to instructors of all classes in which accommodations are sought. (This includes testing modifications.)

**Career Services.** Students are encouraged to consult the AYS Career Services Office for career counsel and job search assistance. <http://aysps.gsu.edu/career/index.html>

## Texts

(M & M). McDonald, John F. and Daniel P. McMillen, *Urban Economics and Real Estate, Theory and Policy*, 2nd Edition. John Wiley & Sons, Inc. 2011.

ISBN: 9780470591482

Edward L. Glaeser, *Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier, and Happier*. New York: Penguin Books, 2011.

Various articles of scholarly work, publicly available or accessible through the GSU library, enumerated below.

## Important Dates

Sep. 6. Turn in project proposal.

Nov. 8. No class meeting.

Nov. 15. Turn in book review

Nov. 22. Thanksgiving holiday. No class meeting.

Nov. 29. Last class meeting. Projects day. (May switch with the final exam period.)<sup>2</sup>

Dec. 11. Final exam. (May switch to the last class meeting.)<sup>2</sup>

## Schedule of Topics and Readings

(subject to change)

Items are marked according to the following key:

\* Required reading, will be discussed in class. All content is exam material.

• Required reading; will be lectured on in class. Featured content is exam material.

- Suggested reading; may be referenced in class. Not exam material (though any lecture material is exam material).

1. Aug. 23. Why cities exist.

(a) Course introduction

(b) Reasons and forms of agglomeration

• M & M ch. 4-5

- Hotelling, H. (1929). "Stability in Competition." *The Economic Journal*.

2. Aug. 30. The economic theory of space

(a) Bid-rents

• M & M ch 6

(b) The mono-centric city model

• M & M ch 7

3. Sep. 6. The Rosen-Roback Model

(a) The hedonic model

• Rosen, S. (1974). "Hedonic Prices and Implicit Markets: Product Differentiation in Pure Competition." *Journal of Political Economy*

• M&M ch. 10 Appendix

(b) Spatial equilibrium

• Roback, J. (1982). "Wages, Rents, and Quality of Life." *Journal of Political Economy*

• M&M ch. 10 Appendix

4. Sep 13. Housing in urban markets

(a) Housing markets

• M & M ch 10, 12

(b) Housing supply in urban areas

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<sup>2</sup>Provided a majority of the class agrees, and no student suffers an un-mitigable injury from the reschedule.

- \* Glaeser, Gyourko, and Saks. (2006) “Urban Growth and Housing Supply.” *Journal of Economic Geography*.
- Saiz, A. (2010). “The Geographic Determinants of Housing Supply.” *Quarterly Journal of Economics*.

5. Sep. 20 & 27. Sorting and heterogenous preferences

(a) Sorting

- Tiebout, C. (1956) “A Pure Theory of Local Expenditures.” *Journal of Political Economy*.
- Bayer, Ferreira, and McMillan. (2007). “A Unified Framework for Measuring Preferences for Schools and Neighborhoods.” *Journal of Political Economy*.

(b) Application: segregation

- Schelling, T. (1971) “Dynamic Models of Segregation.” *The Journal of Mathematical Sociology*
- \* Card, Mas, and Rothstein. (2008) “Tipping and the Dynamics of Segregation.” *Quarterly Journal of Economics*.
- \* Glaeser and Vigdor, *The End of the Segregated Century: Racial Separation in America’s Neighborhood, 1890-2010*, Manhattan Institute of Policy Research.

[www.manhattan-institute.org/html/cr\\_66.htm](http://www.manhattan-institute.org/html/cr_66.htm)

*Or Click Here*

6. Sep. 27. Urban problems

(a) Neighborhood effects on individual outcomes

- \* Katz, Kling, and Liebman. (2001) “Moving to Opportunity in Boston: Early Results of a Randomized Mobility Experiment.” *Quarterly Journal of Economics*.

7. Oct. 4. Transportation and Sprawl

(a) Transportation mode choice

- excerpts from ch. 3 of Train, K. (2009) *Discrete Choice Models with Simulation, 2nd ed.* Cambridge University Press.  
Available through Professor Train’s (yes, that is his name) website at:  
<http://elsa.berkeley.edu/books/choice2.html>
- McFadden, D. et al. (1977). “Demand Model Estimation and Validation.” *Urban Travel Demand Forecasting Project, Final Report, Volume V*, Institute of Transportation Studies, University of California, Berkeley.

(b) Road transportation.

- \* Baum-Snow. (2007) “Did Highways Cause Suburbanization?” *Quarterly Journal of Economics*.

8. Oct. 11 & 18. Urban labor markets, skills, and agglomeration

(a) Urban wages

- \* Glaeser and Mare (2001) “Cities and Skills.” *Journal of Labor Economics*
- Baum-Snow and Pavan (2012) “Understanding the City Size Wage Gap.” *Review of Economic Studies*

(b) Spatial interactions in the labor market

- \* Bayer, Ross, and Topa. (2008) "Place of Work and Place of Residence: Informal Hiring Networks and Labor Market Outcomes." *Journal of Political Economy*.
- (c) Growth and sorting across labor markets
  - \* Costa and Kahn. (2000) "Power Couples: Changes in the Locational Choice of the College Educated, 1940-1990." *Quarterly Journal of Economics*.
  - Compton and Pollak. (2007) "Why Are Power Couples Increasingly Concentrated in Large Metropolitan Areas?" *Journal of Labor Economics*.
  - \* Gyourko, Mayer, and Sinai. (2006) "Superstar Cities." NBER Working Paper.
- 9. Oct. 25. City growth and decline
  - (a) Technological change and city growth
    - \* Glaeser and Ponzetto. (2010). "Did the Death of Distance Hurt Detroit and Help New York?" Ch. 10 of *Agglomeration Economies*, NBER Publication.
  - (b) The asymmetry of growth and decline
    - Glaeser and Gyourko. (2005) "Urban Decline and Durable Housing." *Journal of Political Economy*
- 10. Nov. 1. Urban quality of life. ()
  - (a) Scholarly approaches to quality of life rankings
    - Kahn, M. (1995) "A Revealed Preference Approach to Ranking City Quality of Life." *Journal of Urban Economics*.
  - (b) Popular approaches
    - Mercers, Forbes, BusinessWeek, others...
- 11. Nov. 8. The Triumph(?) of the city.
  - (a) No class meeting
  - (b) Begin/continue reading:
    - Edward L. Glaeser, *Triumph of the City*
- 12. Nov. 15. The Triumph(?) of the city.
  - (a) Turn in critical review.
  - (b) Discussion of
    - \* Edward L. Glaeser, *Triumph of the City*
- 13. Nov. 29. Projects day.
- 14. Dec. 11. Final exam. 10:45-11:15.