

Urban Economics

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PROGRAMME (draft)

I. Course objectives

The main objective of this course is to understand the economic principles that underlie the inter and intra urban organization of economic activity, to understand the reasons for why cities exist and their growth and decline and to understand the economic rationale for and consequences of intervention in land and housing markets and urban areas.

The course starts by introducing the use of the economic theory to examine problems of intra-urban residential location, determination of bid-rent curves, urban growth, optimal city size, transport economics and environmental problems in cities. Next, we will analyse the economic explanation of economic agglomerations and we will discuss the positive and negative aspects related to the existence of cities, through the exploration of a series of specific problems. Moreover, in this course we will try to understand the economics of government intervention in land markets, market failure and market imperfections and to develop an understanding of the means through which governments intervene in those markets (and their main economic rationale and consequences);

II. Structure

1. Spatial Structure of Urban Economics

- 1.1 Von Thunen's model
- 1.2 The Bid-Rent model for firms: the production sector
- 1.3 The Bid-Rent model for households: the consumer model
- 1.4 Alternative explanations for the convexity between prices and distance
- 1.5 Critiques to the models of Urban Economics

2. Residential Location Theory

- 2.1 Testing the Neoclassical Model:
 - 2.1.1 Assumptions of the Neoclassical model
 - 2.1.2 Traditional Defense of the Neoclassical Model
 - 2.1.3 Empirical Evidence
- 2.2 Criticism and the Marxist Explanation
 - 2.2.1 The Orthodox Criticism
 - 2.2.2 Edel's Critique
 - 2.2.3 The Marxist View: The work of David Harvey

3. Theories of the Determination of the Price and Supply of Land

- 3.1 Land Ownership and Occupation
- 3.2 Some Critiques

4. Optimal City Size

- 4.1 Why do Cities Exit?
- 4.2 Limits to City Size
- 4.3 Market Tests of City Size

5. The Distribution of City Sizes

- 5.1 "Central Place Models" and "Rank Size Rule"
- 5.2 Evans's Theory of Clubs Explanation of the Urban Hierarchy
- 5.3 Stochastic Models

6. Models of Urban Growth

- 6.1 Virtuous and Vicious Circles
- 6.2 Baumol's Blight Model

7. Increasing Returns and Externalities

- 7.1 Role of Increasing Returns
- 7.2 Increasing Returns and Agglomeration Economies
- 7.3 Externalities: Marshall and Jacobs
- 7.4 Modelling Cities and Agglomerations

8. Spatial Location: “New Economic Geography” and Others

8.1 Krugman’s Model: New Economic Geography

8.2 Policy Implications

8.3 Policy Instruments: Innovation and Spillovers

9. Introduction to Transport Economics

9.1 The Demand for Transportation

9.2 Rationale of Road Pricing

9.3 Congestion, Accidents and Noise and Atmospheric Pollution as Externalities

9.4 Methods of Road Pricing

10. Environmental Problems in Latin American Cities

10.1 Who Bears the Environmental Costs in Cities?

10.2 Sustainable Development and Cities

11. Education and Crime

11.1 Education and Cities

11.2 Crime, Welfare and Cities

III. Bibliography

*Means Core reading

1) Spatial Structure of the Urban Economy

- Evans, A.W. (1985), Urban Economics, Chapter 2: “Residential Location”; Chapter 9: “The Land Market”.
- MacCann, P. (2001) Urban and Regional Economics, Oxford University Press. Chapter 3: “The Spatial Structure of the Urban Economy”.
- * Mills E and Hamilton, B.W. (1994, 5th Edition), Urban Economics. Chapter 5: “Introducing Land and Land Rent into Price Theory”; Chapter 6: “Theoretical Analysis of Urban Structure”, Chapter 7: “A critical Examination of the Monocentric Model”.
- * O’Sullivan, A. (1996, 3th Edition), Urban Economics, “Part II Land Rent & Land-Use Patterns”. Chapter 7: “Introduction to Land Rent and Land Use”; Chapter 8: “Land-Use in the Monocentric City”; Chapter 9: “General-Equilibrium Land Use”; Chapter 11: “Land-Use-Controls and Zonings”

2) Residential Location Theory

- *Edel, M., Part Two: Intraurban Location and Land Use, 2.4 “Planning, Market or Warfare? – Recent Land Use Conflict in American Cities” in Eden and Rothenberg (1972), Readings in Urban Economics.
- *Mills E and Hamilton, B.W. (1994, 5th Edition), Urban Economics, Chapter 7: “A Critical Examination of the Monocentric Model”
- *Harvey, D. (1974), “Class Monopoly Rent, Finance Capital and the Urban Revolution”, *Regional Studies*, Vol. 8, pp. 239-55.
- Evans, A.W. (1991), “On Monopoly Rent”, *Land Economics* 67(1), pp 1-14.

3) Theories of the Determination of the Price and Supply of Land

- *Evans, A.W. (1985), *Urban Economics*, Chapter 9: “The Land Market”.
- Evans, A.W. (1983), “The Determination of the Price of Land”, *Urban Studies*.
- Evans, A.W. (1985), “The Supply of Land”, *Urban Studies*.
- Evans, A.W. (1986), “The Supply of Land: A Pedagogic Comment”, *Urban Studies*. (Sage Journals online)

4) Optimal City Size

- Evans, A.W. (1985), *Urban Economics*, Chapter 6: “City Size, Structure & Growth”.
- Evans, A.W. (1972), “The Pure Theory of City Size in an Industrial Economy”, *Urban Studies*.
- Price, C. (1978), “Individual Preferences and Optimal City Size”, *Urban Studies*.
- Richardson, H.W. (1972), “Optimality in City Size, Systems of Cities and Urban Policy, A Sceptic View”, *Urban Studies*. (Sage Journals online)
- * O’Sullivan, A. (1996, 3th Edition), *Urban Economics*, “Part I Market Forces in the Development of Cities”. Chapter 2: “Why do Cities Exist?”, Chapter 3: “Where do Cities Develop”; Chapter 5: “How Many Cities”
- Richardson, H.W. (1978), *Urban Economics*, Chapter 5: “City Size and its Distribution”.
- *McCann, Ph. (2006), *Urban and Regional Economics*, Chapter 2: “The Spatial Distribution of Activities”

5) The Distribution of City Sizes

Same Bibliography as for previous section

6) Models of Urban Growth

- *Evans, A.W. (1985), *Urban Economics*, Chapter 6: “City Size, Structure & Growth”
- *O’Sullivan, A. (1996, 3rd Edition), Chapter 6: “Urban Economic Growth”
- *Richardson, H.W. (1978), Chapter 4: “Urban Growth” (Baumol’s Disease)

7) Increasing Returns and Externalities

- **World Development Report 2009: Reshaping Economic Geography*, World Bank. You can download it from the World Bank website
file:///C:/Users/Usuario/Downloads/WDR%202009%20-%20English.pdf
- Dixit, Avinash K. and Stiglitz, Joseph E. "Monopolistic Competition and Optimal Product Diversity." *American Economic Review (AER)*, June 1977, 67(3), pp. 297-308
- Krugman, P. (1979), "Increasing Returns, Monopolistic Competition, and International Trade", *Journal of International Economics (JIE)*, 9(4) 469-479
- Romer, P. (1986). Increasing Returns and Long-Term Growth. *Journal of Political Economy (JPE)*, 94(5), pp. 1002-37
- *Krugman, P., (1991). ‘Increasing Returns and Economic Geography’, *Journal of Political Economy (JPE)*, vol. 99(3), pp. 483-99

8) Spatial Location: “New Economic Geography” and Others

- *Brakman, S. et al. (2009), *The New Introduction to Geographical Economics*, Cambridge: CUP. Chapter 1: “A First Look at Geography, Trade and Development”, Chapter 2: “Geography and Economic Theory”, Chapter 3: “The Core Model of Geographical Economics”, Chapter 5: “Agglomeration, The Home Market Effect, and Spatial Wages”.
http://assets.cambridge.org/97805216/98030/frontmatter/9780521698030_frontmatter.pdf
- *McCann, P. (2006), *Urban and Regional Economics*, Chapter 2: “The Spatial Distribution of Activities, also look at Appendix 2.3 “The Krugman-Fujita Model”

- *Glaeser, E. (1999), “The Future of Urban Research: Non-Market Interactions”. Harvard University and NBER

9) Introduction to Transport Economics

- * Newbery, D.M. (1990), “Pricing & Congestion: Economic Principles Relevant to Pricing Roads”. *Oxford Review of Economic Policy*, Vol. 6, N° 2
- O’Sullivan, A. (1996, 3rd Edition), Capítulo 19: “Autos and Highways”, Capítulo 20: “Mass Transit”.
- Richardson, H.W. (1978), Urban Economics, Chapter 9: “Transportation”
- Evans, A.W. (1985), Urban Economics, Chapter 6: “Urban Transport”
- *O’Flaherty, City Economics, Chapter 3: “Cars, Pollution, and Accidents”, Chapter 4: “Congestion”, Chapter 6: “Mass Transit”
- *Glaeser, E. and Kohlhase, J. (2004) ‘Cities, Regions and the Decline of Transport Costs’, *Papers in Regional Science*, Vol. 83: 197–228.

10) Environmental Problems in Latin American Cities

- *CEPAL (ECLAC) (2011), “Ecoeficiencia y Desarrollo de Infraestructura Urbana Sostenible en Asia y América Latina”.
- *CEPAL (ECLAC), UN Habitat, ESCAP, Urban Design Lab (2011), “Executive Summary: Are We Building Competitive and Liveable Cities? Guidelines for developing eco-efficient and socially inclusive infrastructure”
- *O’Flaherty, City Economics, Chapter 9: “Water, Sewers, Fire, and Garbage”
- *Kraimer, A. et al. (1993), “Towards a Sustainable Urban Environment: The Rio de Janeiro Study”, *World Bank Discussion Papers*. Washington, D.C.: World Bank.
- *Hardly, J.E., Satterthwaite, D. and Mitlin, D. (2001), Environmental Problems in an Urbanizing World: Finding Solutions in Africa, Asia and Latin America, “Chapter 3: The City Environment”, “Chapter 4: Who Bears the Environmental Costs in Cities?”, “Chapter 6: Tackling Environmental Health Problems” and “Chapter 8: Sustainable Development and Cities”. Sterling, VA: Earthscan Publications.

For Chapter 3 see:

http://books.google.co.uk/books?hl=es&lr=&id=u2GuY9fr9LgC&oi=fnd&pg=PR3&dq=Environmental+Problems+in+an+Urbanizing+World:+Finding+Solutions+in+Africa,+Asia+and+Latin+America&ots=vat7UiETHC&sig=Lr8ATMjBnXmc_uzm4SORVElat-A#v=onepage&q&f=false

The rest of the book in: 4shared.com

11) Education and Crime

- *O’Flaherty, City Economics, Chapter 10: “Education”, Chapter 16: “Crime”
- Paul Cheshire and Stephen Sheppard (2004), “Capitalising the Value of Free Schools: The Impact of Supply Characteristics or Uncertainty”, *The Economic Journal*, 114 (November), pp. 397–424.
- O’Sullivan, A. (1996, 3rd Edition), Capítulo 21: “Education”, Capítulo 22: “Crime and Punishment”.
- *Edward L. Glaeser and Bruce Sacerdote (1999), “Why Is There More Crime in Cities?”, *Journal of Political Economy*, 1999, vol. 107, no. 6, pp. 225-258.
- Hinton, M. and Newburn, T. (2008). Policing Developing Democracies, “Part III: South America”. Routledge; 1st Edition. (www.4shared.com).

IV. Evaluations and Exam

It will be assessed with short tests, to evaluate reading material, and a comprehensive test during the first and final examination period.

- Reading Comprehension Tests: during class (first or last 30 minutes of the lecture). Bibliography will be given to the students during the week before the test.
- Midterm Test: It will include all the subjects covered so far.
- Students' presentations of a research work (TOR TBA).
- Exam: It will include all the subjects covered during the term.