Urban Economics

33454, Winter 2019

Thursdays 8:30 to 11:30AM at Harper Center C04 and Thursdays 6:00 to 9:00PM at Gleacher Center 404

Booth School of Business, University of Chicago

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Office Hours: Thursdays from 1:15 to 2:15PM at Harper Center C50A and

Thursdays from 5:00 to 6:00PM Gleacher Center 430 TA cubicles

Canvas Site: https://canvas.uchicago.edu/courses/18162

Overview: The decision of where to locate is essential for both business and individuals. It determines the profits of firms through the cost of inputs, market size, the level of competition, and the policy environment they face. It also determines the job opportunities, schooling, and other amenities accessible to individuals. In turn, firm and individual decisions aggregate to determine the performance of cities and regions. This course studies business and individual location decisions and how they determine the main economic forces that lead to the existence and performance of cities and regional agglomerations. The course starts by developing a simple theory of cities and its implications for city size, firm productivity, and housing prices. It then studies evidence on the impact of cities on firm and worker productivity, urban amenities, and congestion. We will discuss the problems in measuring these forces, the methodologies to do so, as well as the implications of this measurement for businesses, individuals, and urban policy. We will also study the internal structure of cities, and how to evaluate the effect of new infrastructure or policy on land and housing values and overall welfare. Finally, the course will analyze the role cities and regions play in aggregate economic development.

Grading: Your grade will be based on class participation, an in-class midterm in the 5th week, a class presentation, and a course project. Class participation consists of reading the articles assigned for the class and being ready to discuss them. The class presentation will be on your urban business or policy project and will be scheduled during the last week of the course. A written draft of your project is due on March 20th, 2019. The project should be a business or policy proposal on an urban issue. It can range from a specific investment in one city to a wide-ranging business or policy encompassing a region or many cities in a country. The project should be clearly structured, have a an economic evaluation, and a clear discussion of the arguments in favor and against its implementation. Your arguments should be based on relevant data and theory. In general, it helps to be specific. Group work is encouraged but not necessary. Groups working together on a project should add a statement with each student’s contribution to the project in the final written version. Groups should have no more than 5 students. Class participation will count for 10% of your grade, the midterm for 30%, the class presentation for 20%, and the final project for 40%.
Outline and Readings:
This syllabus, as well as the links to the course slides and all the readings, are located at the course Canvas site. Please read the assigned articles before class. Papers marked as “Technical” are optional and contain mathematical technicalities that are not required for the course.

Week 1:
- Organization and course information
- Introduction
  - What is a city? Why do businesses and individuals locate there?
  - A basic city model: Agglomeration and congestion

Week 2:
- Agglomeration Forces
  - Production Externalities: Firms learn from each other
    * Comin and Rossi-Hansberg, “Heavy technology: The process of technological diffusion over time and space,” *VoxEU* (2012)
  - Dense labor markets: Better matching between firms and workers
  - Suppliers and customers: Firms face lower overall transportation costs in cities

- History: Why do firms stay in the same location?
  * Michaels and Rauch, “Can history leave towns struck in places with bad locational fundamentals?,” *VoxEU* (2013)

**Week 3:**

- Urban amenities and residential valuation: What city characteristics do individuals value?
  - The city as a consumption center and the measurement of amenities
  - Hedonic valuation: How to value a house that has not been sold?
  - Housing Externalities: How others affect the value of my house

**Week 4:**

- Urban population and skill sorting: Who lives where?
  - Urban wage premium and learning: Living in a city affects your wage today and in the future
  - Skill sorting and urban inequality: Its easier to hire talent in cities, and increasingly so
    * Behrens and Robert-Nicoud, “Urbanisation makes the world more unequal,” *VoxEU* (2014)

**Week 5:**

- Measuring the location of businesses and people
  - Official statistics, remote sensing data, and digital sources
  - Midterm Exam
Week 6:
- Congestion
  - Transportation networks in cities: Reducing the cost of doing business
  - Commuting and the availability of workers and consumers

Week 7:
- Systems of cities and industrial composition
  - The size distribution of cities and urban migration
    * Desmet and Rossi-Hansberg, “Are the world’s megacities too big?,” *VoxEU* (2011)
  - Industrial agglomeration and market concentration: Do industries cluster? What are the trends in concentration?
- Input-output linkages between firms and their importance for location choices and the impact of shocks
  * Mori, “Constant churning and persistent regularity in population and industrial locations: Evidence from Japan,” *VoxEU* (2017)

Week 8:
- Urban growth and decline: Why it is easier to grow than to shrink?
  - Housing and land supply
  - Inelastic city structure: The consequences of past growth
    * Pinto, “Responding to urban decline,” *Economic Brief* (2017)
  - Gentrification: Up-and-coming neighborhoods and their characteristics
  - Moving to opportunity and the investment component of location choices
    * Bliss, “If location is an asset, high rent is ‘Saving’ for the future,” *CityLab* (2018)

Week 9:
- Housing and real estate
  - Decomposing real-estate trends: What determines the value of a house?
  - The Great Recession and other boom-bust cycles
    * Eyigungor, “Housing’s role in the slow recovery,” *Economic Insights* (2016)
  - Regulation: The impact of regulation on business and residential real estate
Week 10

- Climate Change and Location Choices
  - Green cities
  - Mobility and urban adaptation due to climate
    * Kocornik-Mina, McDermott, Michaels and Rauch, “Do floods shift economic activity to safer areas?,” *VoxEU* (2016)

- Class Presentations