This course will emphasize theory and the theory of policy rather than empirical or policy analysis, and will cover the core material in urban economic theory. The principal subject areas are urban spatial economics, urban transportation economics, housing economics, and urban public finance.

The grading scheme is as follows:

- Problem sets 10%
- Final exam 45%
- Paper 45%

There will be two problems a week. The two problems will be assigned on the Wednesday and due the following Wednesday. I will return the graded problems and provide answers on the Friday.

The final exam will be in the assigned exam slot.

For the paper, I would like a modest (10-15 double-spaced pages) but polished piece of urban economics. One possibility is a "note" which provides a modest extension of a published paper or points out and corrects an error in a published paper. An empirical paper, or a more ambitious but less polished theoretical paper, is also acceptable, but a literature review is not. The topic should be chosen prior to the spring break, after consultation with me. The paper is due the last day of classes. I shall be pleased to provide assistance on the paper.

My office is located in Carney Hall, room 231; my telephone number is 552-3674; and my office hours are WF 3:30 to 5:00.
Reading List I

There is no really good graduate urban economics textbook. There are good books covering specific topics but no book which is both really good and comprehensive.

Since the emphasis of the course is theoretical, I would like you to supplement the lectures with some more applied reading. Specifically, by the end of the term I will expect you to have read the best-known undergraduate urban economics textbook and to have absorbed the material:


Starred readings are essential. Bulleted readings are strongly recommended. The other readings are recommended. I will give out copies of all essential and strongly recommended readings plus some others. As time permits, I shall draw up longer reading lists related to specific topics for reference purposes.

Each lecture will focus on one reading.

URBAN SPATIAL ECONOMICS

There is a very good book on urban spatial economics: M. Fujita, Urban Economic Theory, Cambridge, 1989. It is, however, rather technical and advanced. I recommend that you buy a copy for your home library, but it is not required.

I. Monocentric City Model

Lecture 1 Introduction to basic concepts.


Lecture 2 The Mills-Muth Model.


Lecture 3 The Mills-Muth model (continued).
Lecture 4

The optimum monocentric city without traffic congestion.


II. Non-monocentric City Models

Lecture 1

Overview of the literature.


Lecture 2

The Fujita-Ogawa model.


Lecture 3  Economics of subcenter formation.


Lecture 4  Retail location models.


• R. Arnott, "Firm Location Theory with Strategic Interdependence", mimeo.


URBAN TRANSPORTATION ECONOMICS

I.  First-best Urban Transportation Economics

There are two books which provide very good coverage of the topic:


I advise you to buy both books for your home library, as well as a classic in the field:


Lecture 1  Standard theory.

*Skim the above books.


Lecture 2 Incorporation of standard, first-best treatment of traffic congestion into monocentric model.

*Y. Kanemoto, Theories of Urban Externalities, North Holland, 1980, relevant sections of Chapter 4.


You are advised to review optimal control theory. The best accessible book is Kamien and Schwartz, Dynamic Optimization.

II. Second-best Urban Transport Economics

Lecture 1 Non-spatial models.


Lecture 2 Monocentric model.
Y. Kanemoto, Theories of Urban Externalities, Chs. IV and V.


W. Wheaton, "Land Use and Density in Cities with Congestion", mimeo.

There is a very good collection of readings in the economics of transport: The Economics of Transport, Edward Elgar, 1996 (?) edited by H. Mohring. It contains a very good introduction and stresses urban transportation.

III. Alternative Treatments of Congestion

Lecture 1 Traffic flow theory.


The Handbook is an excellent reference source, and I strongly recommend it for the home library of anyone interested in transportation.

Lecture 2 The bottleneck model.


R. Arnott, A. dePalma, R. Lindsey, "Recent Developments in the Bottleneck Model", mimeo.

IV Other Topics

Lecture 1 Traffic demand analysis and current research topics.

*K. Small, Urban Transportation Economics, section 2 on Travel Demand.

The standard reference on the discrete choice theory approach to travel demand analysis is:

This should be in the home library of anyone interested in transportation.

Lecture 2  
Urban transport policy.


E. Verhoef, The Economics of Regulating Road Transport, Edward Elgar, 1996.

A. Gomez-Ibanez and K. Small, "Experience with Road Pricing", mimeo.

HOUSING ECONOMIC THEORY

There are no first-class books on housing economic theory. There is, however, one very good book which treats a number of issues related to housing economic theory, but its focus is on real estate:


I strongly urge you to buy this for your home library because it is such a good book. And if you have an interest in housing, you really should have it.

Lecture 1  
Overview


*Skim DiPasquale and Wheaton


Lecture 2  Housing in static and dynamic, monocentric city models


Lecture 3  Filtering in housing markets.

There is a good book which focuses on filtering in housing markets:

J. Rothenberg et al., The Maze of Housing Markets, MIT Press, 1994

If you have a strong interest in housing, I urge you to buy this book for your home library.


Lecture 4  Imperfectly competitive housing market models

*  M. Igarashi and R. Arnott, "Rent Control, Mismatch Costs, and Search Efficiency", mimeo.
Lecture 5 The economics of homelessness.

This topic is particularly interesting because it concerns the appropriate scope of economics. There are two very good books on the topic:


I urge you to purchase both for your home library. There is also an interesting book review of the O'Flaherty book:


LOCAL PUBLIC FINANCE

Lecture 1 Overview.

A good review of the literature up to 1985 is provided in:


If you have an interest in local public finance, I strongly urge you to add this monograph to your home library. There are also three essays in The Handbook of Public Economics, Vol. II that are recommended: Theory of Public Goods by William Oakland, The Economics of the Local Public Sector by Daniel Rubinfeld, and Markets, Government, and the "New" Political Economy by Robert Inman.


remains the best book on public economics. It should be in your home library. While much of the book is useful for this section, Lecture 17 on Local Public Goods is the most directly relevant.
Lecture 2  Local taxation.

*W. Vickrey, "General and Specific Financing of Urban Services", Public
Expenditure Decisions in the Urban Community, H.G. Schaller,

There has been a long debate about the appropriate way to model the property tax.
A good survey of the older literature is provided in:


A more recent survey is:

G. Zodrow and P. Mieszkowski, "The Incidence of the Property Tax: The
Benefit View versus the New View" in Local Provision of Public
Services: The Tiebout Model after Twenty-Five Years, G. Zodrow,

The older literature tended to treat the property tax as a tax on rent. A common
theme in that literature was that site value rather than property value should be taxed. There
is a newer literature which treats the property tax as a tax on value, and argues that site
value taxation is distortionary, e.g. R. Arnott, "Neutral Property Taxation", mimeo.

R. Arnott and R. Grieson, "Optimal Fiscal Policy for a State or Local

Lecture 3  The Tiebout hypothesis and preference revelation.

*P. Samuelson, "The Pure Theory of Public Expenditure", Review of

*P. Samuelson, "Diagrammatic Exposition of a Theory of Public
Expenditure", Review of Economics and Statistics, 1955, 37, 350-
356.

*C. Tiebout, "A Pure Theory of Local Expenditures", Journal of Political
Economy, 1956, 64, 416-424.

F. Westhoff, "Existence of Equilibria in Economies with a Local Public

T.F. Bewley, "A Critique of Tiebout's Theory of Local Public

T. Nechyba.

Lecture 4  Club theory.


Lecture 5  Models of tax competition.


Lecture 6  Fiscal federalism.


W. Oates, "Federalism and Government Finance" in Modern Public Finance.

T. Nechyba.

Lecture 7  Local public education and school vouchers.

*T. Nechyba.


As the term proceeds, I shall make minor changes to the reading list.