

# Urban and Regional Economics

USC Price School of Public Policy

PPD 358; Fall 2016

4 units  
Lec 51124R

Tuesdays &  
Thursdays  
2:00pm – 3:50pm

RGL 215



<http://www.naturamio.com/photo/8558627>

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Office hours:  
Fridays 8:30 – 10am  
or by appointment

## Introduction

Most people live in cities, and that is especially true in the United States and other advanced economies. Cities are focal points for economic activity drawn by powerful forces of agglomeration and scale. At the same time, cities (or urban areas more broadly) are complex economic phenomena in their own right, as they provide housing, mobility, and a full range of public services for the multitudes who live and work there. This course examines this phenomenon from the perspective of urban planning using basic analytical tools of economics.

The analytical tools and conceptual models you learn in this course are not ends in and of themselves. Instead, they derive their value from the clarity and insights they provide into contemporary policy issues. The complexity of urban and regional economic policy issues is evident from their diversity and scope:

- ✚ Why is housing in some cities so expensive? What can be done to make housing more affordable?
- ✚ What is the most effective way to deal with traffic congestion: Build more roads? Invest in public transit? Reshape land use patterns to affect travel behavior? Impose congestion tolls?
- ✚ Are U.S. cities running an infrastructure deficit? Why does it seem to be the case that the United States is falling behind compared to other countries. What can be done about it?
- ✚ What is the overall effect of urban land use regulations? Do they make cities better places to live, or do they impose unnecessary costs on the provision of housing, office and retail space?
- ✚ Do cities exacerbate problems of climate change? On a related point, are cities vulnerable to the impacts of climate change? What are the urban policy solutions pertinent to climate change mitigation and adaptation?
- ✚ How can U.S. cities compete effectively in a global marketplace? Are we destined to “export jobs” overseas? How does globalization affect life at home, for better or for worse?
- ✚ Is urban sprawl a good thing or a bad thing?

## Learning objectives

In this course you are expected not only to learn fundamental economic concepts, but also to apply them analytically to address urban and regional policy issues. By the end of the semester you should be able to:

- Translate easily between total, marginal, and average value concepts for specified economic functions;
- Convert between the asset values of stocks and the rental values of corresponding flows using *present value* principles;
- Demonstrate a clear understanding of the significance of and distinction between *equilibrium* and *optimum* outcomes;
- Describe the relative merits of markets, zoning, and other planning tools for allocating scarce land among competing alternative uses;
- Assess housing issues in the context of housing's dual role as a physical *stock* and as the source of a *flow* of accommodation services;
- Address issues of sprawl, and urban structure more generally, from an economic perspective;
- Articulate how a quasi-market equilibrium results as residents of a metropolitan region "vote with their feet" to select which municipality to live in;
- Evaluate the relative merits of four alternative policy options regarding traffic congestion: (i) do nothing, (ii) decrease demand, (iii) increase capacity, and (iv) congestion tolls;
- Explain how economic base models, Keynesian multipliers, location quotients, and input-output models are used to analyze regional economic issues;
- Show how cost-benefit analysis can be used to evaluate planning projects, with an emphasis on the role of shadow prices in such analyses.

As described below, you will have ample opportunity to exhibit your abilities through economic analyses of current affairs topics, through a more in-depth group project, and through midterm and final exams.

## Earning your grade

Your course grade comprises several components, all of which are centered one way or the other on the core readings and concepts:

- **Current affairs reporting (30%)** – Through this assignment, each of you will have an opportunity to link the assigned course readings to three distinct current affairs topics of your own choosing. Drawing from newspaper or magazine articles, professional reports, or other documented accounts, you are to produce three separate one-page synopses showing how the analytical tools and conceptual models from the course readings and lectures apply to contemporary urban policy issues. Early in the semester we will work together to allocate topics to students for the coming weeks and months.
- **Major project evaluation (30%)** – Working in small groups, you will produce a report that evaluates a major infrastructure project or policy initiative within an urban and/or regional context. A centerpiece of your report will be an economic analysis of the proposed project. In addition to the core course readings, your report should be informed by a broader literature regarding projects similar to the one you are considering. Your report should also sketch out a proposed empirical strategy for a more in-depth assessment.
- **Midterm exam (15%)** – An in-class, open-book midterm exam will be tightly tied to the course readings to ensure that you are duly rewarded for your astute and penetrating understanding thereof.
- **Final exam (15%)** – The final exam will be comparable to the midterm exam, but will cover readings for the entire semester.
- **Class participation (10%)** – This grade will be based on my assessment of how your class contributions helped others in the class to learn the course material.

## Schedule of topics

We have a full schedule for the semester, as indicated in the table below<sup>1</sup>. Those topics indicated in **black boldface font** denote regular lectures tied closely to the course readings. Topics denoted in *italics* are more discussion-oriented, but will also be tied to specific readings. Items in **bold blue font** are days set aside for your presentations and/or preparations, including presentation and discussion of your current event assignments and opportunities for you to work in your groups on the midterm project. You will of course also want to pay attention to the midterm exam, indicated in **bold red font**.

Date -->	Tuesdays	Thursdays	<--Date
23-Aug	<b>Course overview; Thinking Tools</b>	<b>The Economics of Housing</b>	25-Aug
30-Aug	<i>To Own or to rent?</i>	<b>The Economics of Land Use Regulation</b>	1-Sep
6-Sep	<i>Searching for Engel in Buenos Aires</i>	<b>Current event synopses</b>	8-Sep
13-Sep	<b>The Economics of Traffic Congestion</b>	<i>How much for a parking space?</i>	15-Sep
20-Sep	<b>Working groups - project evaluation</b>	<b>Rethinking Fiscal Impacts</b>	22-Sep
27-Sep	<b>Understanding Cost-Benefit Analysis</b>	<b>Current event synopses</b>	29-Sep
4-Oct	<b>Urban Environmental Economics</b>	<i>Adaptation to flooding in urban areas</i>	6-Oct
11-Oct	<b>Working groups - project evaluation</b>	<b>Public Goods and Public Choice</b>	13-Oct
18-Oct	<i>Municipal "clubs"</i>	<b>The Economics of Urban Structure</b>	20-Oct
25-Oct	<i>Fuzzy urban sets</i>	<b>Current event synopses</b>	27-Oct
1-Nov	Midterm exam preview	<b>Midterm exam</b>	3-Nov
8-Nov	<b>Working groups - project evaluation</b>	<b>Infrastructure</b>	10-Nov
15-Nov	<b>Local Economic Development</b>	<b>Regional Development</b>	17-Nov
22-Nov	<i>City Shaping</i>	Thanksgiving (no class)	24-Nov
	<b>Working group presentations</b>	<b>Working group presentations</b>	1-Dec
29-Nov			

<sup>1</sup> The schedule of topics indicated here is subject to change, but it is our starting point for planning purposes.

## Course readings

### A. Thinking Tools

Heikkila, Eric (2000), "Thinking Tools", chapter 1 in *The Economics of Planning*, CUPR Press, Center for Urban Policy Research, Rutgers University.

### B. The Economics of Housing

Heikkila, Eric (2000), "The Economics of Housing", chapter 3 in *The Economics of Planning*, CUPR Press, Center for Urban Policy Research, Rutgers University.

### C. Own or rent

Bernard, Tara Siegel (2016), "To Buy or Rent a Home? Weighing Which is Better", *New York Times*, April 1<sup>st</sup>. <http://www.nytimes.com/2016/04/02/your-money/to-buy-or-rent-a-home-weighing-which-is-better.html>

Bostock, Mike, Shan Carter and Archie Tse (2014), "Is it Better to Rent or Buy", *The Upshot*, *New York Times*. [http://www.nytimes.com/interactive/2014/upshot/buy-rent-calculator.html?\\_r=0](http://www.nytimes.com/interactive/2014/upshot/buy-rent-calculator.html?_r=0)

### D. The Economics of Land Use Regulation

Heikkila, Eric (2000), "The Economics of Land Use Zoning", chapter 2 in *The Economics of Planning*, CUPR Press, Center for Urban Policy Research, Rutgers University.

### E. Searching for Engel in Buenos Aires

Lens, Michael and Paavo Monkkonen (2016), "Do Strict Land Use Regulations Make Metropolitan Areas More Segregated by Income?", *Journal of the American Planning Association*, Winter.

Heikkila, Eric (2016), "Searching for Engel in Buenos Aires", PPT presentation.

### F. The Economics of Traffic Congestion

Heikkila, Eric (2000), "The Economics of Traffic Congestion", chapter 6 in *The Economics of Planning*, CUPR Press, Center for Urban Policy Research, Rutgers University.

### G. How much for a parking space?

Pierce, Gregory and Donald Shoup. 2013. Getting the Prices Right: An Evaluation of Parking Pricing by Demand in San Francisco, *Journal of the American Planning Association*, vol. 79, no.1, pp. 67-81.

### H. Rethinking Fiscal Impacts

Heikkila, Eric (2000), "Rethinking Fiscal Impacts", chapter 7 in *The Economics of Planning*, CUPR Press, Center for Urban Policy Research, Rutgers University.

Lieske, Scott, Donald McLeod, Roger Coupal and Sanjeev Srivastava (2012), "Determining the relationship between urban form and the costs of public services", *Environment and Planning B: Planning and Design*, vol. 39, 155-173.

### I. Understanding Cost-Benefit Analysis

Heikkila, Eric (2000), "Understanding Cost-Benefit Analysis", chapter 8 in *The Economics of Planning*, CUPR Press, Center for Urban Policy Research, Rutgers University.

World Bank (2010), *Cost-Benefit Analysis in World Bank Projects*, Independent Evaluation Group.

#### **J. Urban Environmental Economics**

Boarnet, Marlon (2010), "Planning, climate change, and transportation: Thoughts on policy analysis", *Transportation Research Part A*, vol. 44, 587-595.

Heikkila, Eric (2016), "Appendix -- A primer on carbon tax versus cap-and-trade", (yet) unpublished manuscript.

#### **K. Adaptation to flooding in urban areas**

Heikkila, Eric and Mylinh Huang (2014), "Adaptation to Flooding in Urban Areas: An Economic Primer", *Public Works Management & Policy*, vol. 19(1), 11-36.

#### **L. Public Goods and Public Choice**

Heikkila, Eric (2000), "Public Goods and Public Choice", chapter 5 in *The Economics of Planning*, CUPR Press, Center for Urban Policy Research, Rutgers University.

#### **M. Municipal "clubs"**

Heikkila, Eric (1996), "Are Municipalities Tieboutian Clubs?", *Regional Science and Urban Economics*, vol. 26, 203-226.

#### **N. The Economics of Urban Structure**

Heikkila, Eric (2000), "The Economics of Urban Structure", chapter 4 in *The Economics of Planning*, CUPR Press, Center for Urban Policy Research, Rutgers University.

#### **O. Fuzzy urban sets**

Heikkila, Eric and Yiming Wang (2010), "Exploring the Dual Dichotomy within Urban Geography: An Application of Fuzzy Urban Sets", *Urban Geography*, vol. 31(3), 406-421.

#### **P. Infrastructure**

Beckers, Frank et al (2013), "A Risk-Management Approach to a Successful Infrastructure Project", *McKinsey Working Papers on Risk*, no. 52.

Stevens, Barrie, Pierre-Alain Schieb and Michel Andrieu (2006), "A Cross-sectoral Perspective on the Development of Global Infrastructures to 2030", chapter 1 in *Infrastructure to 2030: Telecom, Land Transport, Water and Electricity*, Organization for Economic Cooperation and Development.

#### **Q. Local Economic Development**

Leigh, Nancey Green and Edward J. Blakely (2013), "Concepts and Theory of Local Economic Development", chapter 3 in *Planning Local Economic Development: Theory and Practice*, 5<sup>th</sup> edition.

#### **R. Regional development**

Heikkila, Eric (2011), "A Naïve Perspective on Regional Development", PPT presentation prepared for Presidential Commission on Regional Development, Korea.

#### **S. City Shaping**

Heikkila, Eric (2004), "What is the Nature of the 21st Century City?", *Planning Theory and Practice*., vol. 5(3), September, 379-387.

## Plagiarism

University guidelines regarding plagiarism and other aspects of academic integrity shall be enforced vigorously in this class. The website at [http://www.usc.edu/student-affairs/student-conduct/ug\\_plag.htm](http://www.usc.edu/student-affairs/student-conduct/ug_plag.htm) is very helpful in this regard, and it is *your* responsibility to be familiar with it. I do not allow “do overs”, so if you have any questions consult with me before you turn in your work. Please be aware that I have a well-established history of effective detection and enforcement.