

NOHAD A. TOULAN SCHOOL OF URBAN STUDIES & PLANNING
PORTLAND STATE UNIVERSITY

Economic Applications for Urban Studies & Planning (USP 515)
Fall 2010

Professor Greg Schrock
Office: 370C Urban Center
Phone: 503.725.8312
Email: gschrock@pdx.edu

Class Time: 10:00-11:50am, Tuesday and Thursday, 270 Urban Center
Office Hours: 1:00-3:00pm, Tuesday and Thursday, other times by appointment

Economics offers us powerful theories about how actors – workers, households, firms, public institutions, and others – behave and make decisions in a world of unlimited wants but finite resources. At a societal level, we look to economics to help us understand how resources are allocated in a manner that is most efficient, but at the same time how it generates gaps and inequities. And within the urban context, we look to economics to help us analyze patterns of human settlement and the built environment over time and across space. Certainly, economics does not tell all – politics, culture, custom and even historical accident each play a role – but it tells us a lot.

In the United States and most advanced capitalist nations, decisions about resource allocation generally occur within markets, and not the realm of planners or agency bureaucrats. Yet as planners we start from the assumption that some (greater or lesser) public intervention in markets is necessary, and indeed desirable, to ensure that certain outcomes – from clean water to safe, uncongested streets to vital commercial districts – are achieved in cases where private market actors may not have the incentive or capacity to provide for them. Both proponents (and often, opponents) of planning interventions will invariably resort to “economic thinking” as a way to analyze problems, and argue for proposed solutions. As planners, it is imperative that you familiarize yourself with economic theory and concepts, and learn how to deploy them effectively in your own analyses and prescriptions, and to critique those of others.

COURSE FORMAT

The course will be divided into two main segments. The first segment will be a brief review of microeconomic theory, with an emphasis on welfare economics and the arguments for planning and public sector intervention in markets. The purpose of this segment is not to serve as an introduction to microeconomics (hopefully you have had already), but rather to reprise key concepts that will appear in subsequent planning courses and later as a practicing planner. As such, we will give particular emphasis to the application of microeconomic theory to real-world urban planning questions and problems, as well as critiques, alternatives to and limitations of the prevailing paradigm of the neoclassical

approach. The goal of this segment is to provide you with the conceptual toolbox to “think like an economist.”

The second segment of the course (comprising the final six weeks) will introduce basic theories and concepts of urban economics. This segment will proceed thematically, discussing topics like economic base theory, urban land market and bid-rent theory, and the economics of transportation, housing, local government, and the environment. All of these topics are dealt with in greater depth in subsequent courses within the program, but the goal in this segment is to provide you with a broad foundation for analyzing cities and the urban environment.

The course will integrate both lecture and active learning components, with the latter designed to stimulate broad participation and application of theoretical material. You are expected to read and/or review materials as assigned, and come to class prepared to discuss them.

TEXTS

The only required text for this course is *Urban Economics* by Arthur O’Sullivan. The most recent edition is the 7th edition (2009, McGraw-Hill), which is available through PSU Bookstore. However, you may opt instead for the 6th edition (released in 2006), which can be obtained quite affordably through a variety of outlets like Amazon.com or Abebooks.com.

For the microeconomic portion of the course, you are not required to purchase a text if you already own or have access to a fairly recent microeconomics text. I have arranged with PSU Bookstore to stock N. Gregory Mankiw’s textbook *Principles of Economics*, the most recent edition of which is the 5th (2009, Thomson South-Western), but the 4th edition is available both through there and other booksellers. (note: Mankiw’s *Principles of Microeconomics* is also acceptable; I do not recommend the shorter *Essentials of Economics*.) If you prefer, you may also choose a less “vanilla” economics text, such as Paul Heyne, Peter Boettke, and David Prychitko, *The Economic Way of Thinking* (the most recent edition is the 12th; the 10th and 11th are okay also). The point here is that you should have access to some text that lays out key microeconomics terms in a systematic way. The assigned readings for weeks 1-4 listed below reference the Mankiw text; if you choose an alternative text, you will need to identify and read the chapters that cover those topics.

In addition to these texts, there will be supplemental readings made available through the course’s Blackboard site (<http://bb.pdx.edu>). Several of these readings will be from databases licensed by the PSU Library, and if you are accessing them from off-campus you will need your Odin account name and password to retrieve them.

ASSIGNMENTS AND GRADING

Your grade for the course will be based upon six components. Further details and guidance about each assignment will be provided in class and on Blackboard.

Assignment 1 (15%): Policy Analysis Memo. For this assignment, you will prepare a brief (1000-1500 word) professional-style memorandum in which you will analyze an

urban planning issue (to be given) and assess the case for planning intervention, and analyze the welfare economic implications of alternative approaches.

Due: October 21st, 8am, to be submitted via Blackboard.

Assignment 2 (20%): Urban Density Analysis. For a major metropolitan region (other than Portland) of your choosing, you will complete a tract-level analysis of the urban population density gradient for 1990 and 2000, using data from the U.S. Census Bureau.

Due: November 13th, 5pm, via Blackboard.

Assignment 3 (20%): Urban Economic Analysis. For the same chosen metropolitan region, you will complete a more extensive analysis of demographic and socioeconomic trends.

Due: December 2nd, 8am, via Blackboard.

Media Analysis & Commentary (10%): At least once during the term, you will find, post to Blackboard and analyze (or critique), in at least 200-300 words, an item reported in the local or national media that relates to the intersection between planning and economics. You should look for items that illustrate, contradict, or critique economic concepts that we discuss in class. The purpose of this assignment is to encourage you to utilize (or substantively critique) economic thinking in analyzing contemporary planning issues or proposals. In addition, you are required to respond to at least two items posted by other students. These may be completed at any point during the term, but no later than the beginning of class on December 2nd.

Final Exam (25%): There will be a final examination for the course, to be held during the scheduled examination week (December 6-10). The exam will be cumulative in nature, covering both segments of the course, but the details of the precise format will be provided later.

Class Participation (10%): Finally, you will be graded based upon the quality (and not necessarily the quantity) of your participation in classroom discussion. I define “quality participation” in terms of participation that is thoughtful, promotes learning and further participation on the part of others. Comments that are disrespectful to others, excessively and persistently off-topic, or otherwise inappropriate or disruptive will be penalized. Attendance will not be graded directly; however, excessive lateness or other activities and behaviors that disrupt the classroom environment (e.g., inappropriate use of technology) will be penalized.

LATE SUBMISSION POLICY: Late submissions for assignments 1-3 will be accepted with a *1 percent per hour* penalty (based on 100-point scale). Students may request additional time (without penalty) to complete assignments, as long as the request is submitted at least 72 hours ahead of the deadline and accompanied by a reasonable justification (to be determined by the instructor).

DISABILITY ACCOMMODATIONS: If you have a verified disability and are in need of academic accommodations, please let me know and I will work with you to arrange appropriate supports through the Disability Resource Center.

ACADEMIC DISHONESTY: It should go without saying that plagiarism and cheating will not be tolerated, but I will say it anyway. "Academic dishonesty," according to Section 577-031-0136 of the PSU Student Code of Conduct, refers to as "the act of knowingly or intentionally seeking to claim credit for the work or effort of another person or participation in such acts." [<http://www.pdx.edu/dos/codeofconduct>] This encompasses both egregious acts of cheating like copying the answer to someone else's exam, but also more mundane acts like lifting reference material from websites without attribution.

COURSE OUTLINE

Week 1 (Sept 28/30): Planning versus the market?

We will begin by discussing the often-tense relationship between planning and economics (and between planners and economists!). What role should planning play in a capitalist economy? We will review how this relationship has been conceptualized in recent years, highlighting key areas of agreement and disagreement on this point.

Readings:

9/28: Klosterman, Richard E. 1985. "Arguments for and Against Planning," *Town Planning Review*, Vol. 56, No. 1: 5-20.

9/30: Mankiw, Ch. 1-2 (or other econ text: see note above)

Richardson, Harry W., and Peter Gordon. 1993. "Market Planning Oxymoron or Common Sense?" *Journal of the American Planning Association*, Vol. 59, No. 3: 347-352.

Alexander, Ernest R. 2001. "Why Planning vs. Markets Is An Oxymoron: Asking the Right Question," *Planning & Markets* [online journal], Vol. 4, No. 1, URL: <http://www-pam.usc.edu/volume4/v4i1a2print.html>.

Week 2 (Oct 5): A primer on microeconomic concepts

We begin our brief section on microeconomics by reviewing the foundational concepts of supply, demand and elasticity. (Note: there is no class on Thursday, October 7, as I will be away at a conference.)

Reading: Mankiw, Ch. 4-5

Week 3 (Oct 12/14): How markets work

Our exploration of microeconomic theory continues with two sessions that address how the market functions according to neoclassical economic theory. In one session, we will discuss the evaluation of market outcomes, which leads us to a discussion of welfare economics, consumer and producer surplus, and cost-benefit analysis. In the other session, we will review the tenets of the competitive market model, and variants of less-than-perfect competition.

Readings: Mankiw, Ch. 7-8 (10/12); Ch. 13-17 (10/14)

Week 4 (Oct 19/21): How markets fail (and other economic rationales for planning)

We conclude our brief section on microeconomic theory by discussing the ways in which markets “fail.” We will review traditional arguments for public intervention in markets, namely in terms of externalities and public goods.

Readings: Mankiw, Ch. 10-11 (10/19)

OCTOBER 21ST: ASSIGNMENT 1 DUE (8am, submit via Blackboard)

Week 5 (Oct 26/28): Basics of Urban Growth and Change

We begin the urban portion of the course by reviewing how economists and geographers have applied economic principles to understand the growth (and occasional decline) of cities and urban regions. These include micro-level explanations for the location of firms and industries, meta-level theories of city systems within countries and the world, and macro-level theories of the economic base.

Reading: O’Sullivan, *Urban Economics*, Ch. 2-5 (pp. 17-117)

Week 6 (Nov 2/4): Urban Land Markets

The forces shaping the allocation of land within urban areas are central to many of the policy tools that planners rely upon, such as zoning. In this week we will introduce theories of urban land markets, most notably bid-rent theory, that offer powerful predictions for how different types of land uses (e.g., commercial, industrial, residential) will locate themselves within an urban area. We will discuss how planning tools like zoning affect the efficiency of land market outcomes, as well as their relationship to other planning goals like equity, environment and aesthetics.

Readings:

O’Sullivan, Ch. 6-9 (pp. 119-248)

Alonso, William. 1960. “A theory of the urban land market.” *Papers and proceedings of the Regional Science Association*, Vol. 6: 149-157.

Clark, Colin. 1951. “Urban population densities.” *Journal of the Royal Statistical Society, Series A (General)*, Vol. 114, No. 4: 490-496.

Week 7 (Nov 9): Urban Transportation

Transportation systems, including roads, transit and bicycle and pedestrian paths, are both a staple of urban planning practice and a key to understanding the spatial dynamics of cities and urban regions. In this week we will discuss the economics of urban transportation, including how transportation systems and changes in transportation technology influence urban form, how planning can address externalities like traffic congestion posed by automobile use, and the economic merits of public investments in mass transit systems like light rail, streetcar and bus networks. (Note: NO CLASS ON THURSDAY, NOVEMBER 11TH DUE TO UNIVERSITY HOLIDAY)

Readings:

O' Sullivan, Ch. 10-11 (pp. 249-306)

Muller, Peter O. 2004. "Transportation and Urban Form: Stages in the Spatial Evolution of the American Metropolis," pp. 59-85 in Susan Hanson and Genevieve Giuliano (eds.), *The Geography of Urban Transportation* (3rd ed.). New York: Guilford Press.

NOVEMBER 13TH: ASSIGNMENT 2 DUE (5pm, Blackboard)

Week 8 (Nov 16/18): Housing

In economic terms, housing represents a different type of good than many others, due to its relative cost and lack of standardization. But housing is more than just a private market good; it influences – and is influenced by – the socio-economic conditions of the community in which it is located; is sensitive to changing urban geographies of transportation and employment, and public policies like local taxation and education; and, not inconsequentially, materially affects the life chances of individuals. In this week we delve into the economics of housing markets, discussing how public policy and urban planning influence those markets in ways good and not-as-good from both an efficiency and equity perspective. We will also examine the phenomenon of gentrification from an economic perspective.

Readings:

O'Sullivan, Ch. 13-14 (pp. 337-380)

Smith, Neil. 1996. "Local Arguments: From 'Consumer Sovereignty' to the Rent Gap," Ch. 3 (pp. 49-71) in *The New Urban Frontier: Gentrification and the Revanchist City*. New York: Routledge.

Week 9 (Nov 23): Local Government

Economists, most notably Charles Tiebout, have argued that metropolitan regions offer households and businesses a "market for local government" that allows for efficient matching of consumer preferences and public goods provision. Others question the desirability of such a market, noting the tendency toward balkanization and stratification among jurisdictions within urban regions and the pervasive nature of externalities in local goods provision. In this session we take up the issue of local government and its role in shaping the spatial dynamics of urban growth and change.

Readings:

O'Sullivan, Ch. 15-16 (pp. 381-428)

Tiebout, Charles M. 1956. "A Pure Theory of Local Expenditures." *Journal of Political Economy*. Vol. 64: 416-424.

Week 10 (Nov 30/Dec 2): Environment and Wrap-up

We begin the final week with an introduction to the economics of environmental policy and sustainability, an area where market-based tools have been utilized quite successfully to achieve reductions in pollution and improvements in environmental quality. And we conclude with a session that wraps up loose ends and reprises key themes from the course.

Reading (11/30): Kahn, Matthew E. 2006. *Green Cities: Urban Growth and the Environment*. Washington, DC: Brookings Institution. Ch. 1-5 (pp. 1-92).

DECEMBER 2ND: ASSIGNMENT 3 DUE