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The Economics of Cities and Regions

Econ 26610

Mondays and Wednesdays, 4:30pm to 5:50pm

Location: TBD

University of Chicago

Winter 2024

TA: Feng Lin, fenglin2@uchicago.edu

[Course Canvas Webpage](#)

Syllabus

Overview: 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 of 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 as well as on overall welfare. Finally, the course will analyze the role cities and regions play in aggregate economic development.

Grading: Your grade for this course will be based on two problem sets (20%), a midterm (30%), a final exam (50%), and class participation (bonus points). Problem sets can be submitted in groups of a maximum of three students. Please direct all questions about exams and problem sets to the TA.

Readings: This syllabus and the lecture slides are located on the course Canvas site. Please read the assigned articles before class. Papers marked as “Technical” are optional and contain mathematical technicalities that go beyond those required for the course. We will use three books on top of specific readings on each topic. Links to the readings are provided below. Some readings will require you to be on the UChicago network to access them. The books are:

- Glaeser, *Triumph of the City*, 2011, Penguin Books
- Moretti, *The New Geography of Jobs*, 2012, Mariner Books
- Sieg, *Urban Economics and Fiscal Policy*, 2020, Princeton University Press

All books have been ordered at the bookstore and are on reserve at the library. The required chapters are listed by topic below. Reading the entirety of the first two books is recommended.

Outline:

Week 1

- Organization and course information

- Introduction
 - What is a city? Why do businesses and individuals locate there?
 - * Glaeser, "Introduction" and "What do they make in Bangalore?," in *Triumph of the City*
 - * Moretti, "Introduction" and "The great divergence," in *The New Geography of Jobs*
 - * Sieg, "Chapter 1: Introduction," in *Urban Economics and Fiscal Policy*
 - * Wingfield, "[Amazon chooses 20 finalists for second headquarters](#)," *New York Times* (2018)
 - A basic city model: Agglomeration and congestion
 - * Ahlfeldt, Redding, Sturm and Wolf, "[The economics of density: Evidence from the Berlin Wall](#)," *VoxEU* (2014)
 - * Brinkman, "[Making sense of urban patterns](#)," *Economic Insights* (2017)
 - * Combes, Duranton, Gobillon, and Roux, "[The Productivity advantages of large cities: Distinguishing agglomeration from firm selection](#)," *Econometrica* (2012) (Technical)
 - * Sieg, "Chapter 22: The Internal Structure of Cities," in *Urban Economics and Fiscal Policy*
 - * Waddell and Sarte, "[From stylized to quantitative spatial models of cities](#)," *Economic Quarterly* (2016) (Technical)

Week 2

- Agglomeration Forces
 - Production Externalities: Firms learn from each other
 - * Chatterji, Glaeser and Kerr, "[The origins of entrepreneurship and innovation clusters](#)," *VoxEU* (2013)
 - * Comin and Rossi-Hansberg, "[Heavy technology: The process of technological diffusion over time and space](#)," *VoxEU* (2012)
 - * Glaeser and Kerr, "[Industrial agglomeration and entrepreneurship](#)," *VoxEU* (2008)
 - * Glaeser and Lu, "[Human capital externalities in China](#)," *VoxEU* (2018)
 - * Greenstone, Hornbeck and Moretti, "[Identifying agglomeration spillovers: Evidence from winners and losers of large plant openings](#)," *Journal of Political Economy* (2010) (Technical)
 - * Lin, "[The paper trail of knowledge transfers](#)," *Business Review* (2014)
 - * Sieg, "Chapter 2: Agglomeration, Productivity, and Trade," in *Urban Economics and Fiscal Policy*
 - Dense labor markets: Better matching between firms and workers
 - * Moretti, "Forces of Attraction" in *The New Geography of Jobs*, 2012, Mariner Books
 - Suppliers and customers: Firms face lower overall transportation costs in cities
 - * Agarwal, Jensen and Monte, "[The geography of consumption](#)," *VoxEU* (2018)
 - * Saxenian, "[Inside-Out: Regional networks and industrial adaptation in Silicon Valley and Route 128](#)," *Cityscape: A Journal of Policy Development and Research* (1996)
 - History: Why do firms stay in the same location?
 - * Michaels and Rauch, "[Can history leave towns stuck in places with bad locational fundamentals?](#)," *VoxEU* (2013)
 - * Lin, "[Geography, history, economies of density, and the location of cities](#)," *Business Review* (2012)

Week 3

- Urban amenities and residential valuation: What city characteristics do individuals value?
 - The city as a consumption center and the measurement of amenities
 - * Glaeser, Kolko and Saiz, “**Consumer city**,” *Journal of Economic Geography* (2000) (Technical)
 - * Rappaport, “**Moving to nice weather**,” *Regional Science and Urban Economics* (2007) (Technical)
 - * Sen and Scavette, “**Purchasing power across the U.S.**,” *Regional Spotlight* (2017)
 - Hedonic valuation: How to value a house that has not been sold?
 - * Sieg, “Chapter 23: Land and Housing Markets,” in *Urban Economics and Fiscal Policy*
 - Housing Externalities: How others affect the value of my house
 - * Rossi-Hansberg and Sarte, “**Economics of housing externalities**,” *International Encyclopedia of Housing and Home* (2012)

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
 - * Glaeser and Mare, “**Cities and skills**,” *Journal of Labor Economics* (2001) (Technical)
 - * De la Roca and Puga, “**Learning by working in big cities**,” *Review of Economic Studies* (2017) (Technical)
 - * Sieg, “Chapter 24: Local Labor Markets,” in *Urban Economics and Fiscal Policy*
 - Skill sorting and urban inequality: It’s easier to hire talent in cities, and increasingly so
 - * Behrens and Robert-Nicoud, “**Urbanisation makes the world more unequal**,” *VoxEU* (2014)
 - * Berkes and Gaetani, “**Income segregation and rise of the knowledge economy**,” working paper (2017) (Technical)
 - * Brinkman, “**Big cities and the highly educated: what’s the connection?**,” *Business Review* (2015)
 - * Diamond, “**The causes and consequences of US workers’ diverging locations by skill**,” *Microeconomic Insights* (2016)

Week 5

- Congestion
 - Transportation networks in cities: Reducing the cost of doing business
 - * Baum-Snow and Kahn. “**The Effects of Urban Rail Transit Expansions: Evidence from Sixteen Cities**,” *Brookings-Wharton Papers on Urban Affairs* (2005)
 - * Baum-Snow, “**Did Highways Cause Suburbanization**,” *Quarterly Journal of Economics* (2007) (Technical)
 - * Donaldson, “**Economic benefits of transportation infrastructure: historical evidence from India and America**,” *Microeconomic Insights* (2017)
 - * Gibbons, Overman, Lyttikainen and Sanchis-Guarner, “**New road infrastructure: The effects on firms**,” *VoxEU* (2017)
 - * Turner, “**The fundamental law of road congestion and its implications for transportation policy**,” *Resources for the Future* (2010)
 - Commuting and the availability of workers and consumers

- * Bernard, Moxnes and Saito, “Fast trains, supply networks, and firm performance,” *VoxEU* (2014)
- * Florida, “The relationship between subways and urban growth,” *CityLab* (2016)
- * Monte, Redding and Rossi-Hansberg, “Commuting, migration and local employment elasticities,” *VoxEU* (2015)
- * Tsivanidis, “The equitable benefits of Colombia’s bus rapid transit system,” *VoxDev* (2018)

Week 6

- Systems of cities and industrial composition
 - The size distribution of cities and urban migration
 - * Combes, Demurger and Shi, “Urbanisation and migration externalities in China,” *VoxEU* (2013)
 - * Clement, “Sets and the city,” *The Region* (2004)
 - * Desmet and Rossi-Hansberg, “Are the world’s megacities too big?,” *VoxEU* (2011)
 - * Desmet and Rossi-Hansberg, “Analyzing Urban Systems: Have Mega-Cities Become Too Large?,” *The Urban Imperative: Towards Competitive Cities*, Oxford UP (2015) (Technical)
 - * Henderson, Squires, Storeygard and Weil, “Changing population distribution: The roles of nature and history,” *VoxDev* (2018)
 - * Soo, “Zipf’s Law for cities: A cross-country investigation,” *Regional Science and Urban Economics* (2005) (Technical)
 - Industrial agglomeration and market concentration: Do industries cluster? What are the trends in concentration?
 - * Duranton and Overman, “Testing for localization using micro-geographic data,” *Review of Economic Studies* (2005) (Technical)
 - * Ellison, Glaeser and Kerr, “What causes industry agglomeration? Evidence from coagglomeration patterns,” *American Economic Review* (2010) (Technical)
 - * Rossi-Hansberg, Sarte and Trachter, “Diverging trends in national and local concentration,” NBER Macroeconomic Annual (2021)
 - 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)
 - * Rossi-Hansberg, “Geography, idiosyncratic shocks, and aggregate fluctuations,” *RIETI* (2014)

Week 7

- Urban growth and decline: Why it is easier to grow than to shrink
 - Housing and land supply
 - * Glaeser and Gyourko, “Urban decline and durable housing,” *Journal of Political Economy* (2006) (Technical)
 - * Ioannides and Rossi-Hansberg, “Urban growth,” *The New Palgrave Dictionary of Economics* (2008)
 - * Saiz, “The geographic determinants of housing supply,” *Quarterly Journal of Economics* (2010) (Technical)

- Inelastic city structure: The consequences of past growth
 - * Owens, Rossi-Hansberg and Sarte, “Wasted urban infrastructure: The city of Detroit,” *VoxEU* (2017)
 - * Pinto, “Responding to urban decline,” *Economic Brief* (2017)
- Gentrification: Up-and-coming neighborhoods and their characteristics
 - * Lin, “Understanding gentrification’s causes,” *Economic Insights* (2017)
- 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)
 - * Chetty and Hendren, “The impact of neighborhoods on intergenerational mobility,” *Equality and Opportunity Project* (2015)
 - * Clement, “Trading places,” *The Region* (2018)
- Work from home
 - * Monte, Porcher, and Rossi-Hansberg, “Work from home in cities: A tale of coordination and multiple equilibria,” *VoxEU* (2023)
 - * Zarate, Dolls, Davis, Bloom, Barrero, Giray, “Working from home around the world,” *VoxEU* (2023)

Week 8

- Housing and real estate
 - Decomposing real-estate trends: What determines the value of a house?
 - * Davis and Heathcote, “The price and quantity of residential land in the US,” *Journal of Monetary Economics* (2007) (Technical)
 - * Sieg, “Chapter 25: Homeownership, Mortgage Markets, and Default,” in *Urban Economics and Fiscal Policy*
 - The Great Recession and other boom-bust cycles
 - * Eyigungor, “Housing’s role in the slow recovery,” *Economic Insights* (2016)
 - * Mian and Sufi, “The consequences of mortgage credit expansion: Evidence from the U.S. mortgage default crisis,” *Quarterly Journal of Economics* (2009) (Technical)
 - Regulation: The impact of regulation on business and residential real estate
 - * Glaeser and Gyourko, “The impact of zoning on housing affordability,” *Economics Policy Review* (2003)
 - * Hsieh and Moretti, “How local housing regulations smother the U.S. economy,” *New York Times* (2017)
 - * Moretti and Wilson, “Where star scientists choose to locate: the impact of US state taxes,” *Microeconomic Insights* (2017)

Week 9

- Climate Change and Location Choices
 - Green cities
 - * Glaeser, “Is there anything greener than blacktop?” in *Triumph of the City*, 2011, Penguin Books
 - * Sieg, “Chapter 20: Urban Environmental Challenges,” in *Urban Economics and Fiscal Policy*
 - Mobility and urban adaptation due to climate

- * Desmet and Rossi-Hansberg, “**Moving to Greenland in the face of global warming,**” *VoxEU* (2013)
- * Kocornik-Mina, McDermott, Michaels and Rauch, “**Do floods shift economic activity to safer areas?,**” *VoxEU* (2016)
- * Conte, Desmet, and Rossi-Hansberg, “**Carbon taxes may be a boon for the world, even in the short run,**” *VoxEU* (2023)
- * Cruz and Rossi-Hansberg, “**Unequal gains: Assessing the aggregate and spatial economic impact of global warming,**” *VoxEU* (2021)
- * Bilal and Rossi-Hansberg, “**The importance of anticipating climate change,**” *VoxEU* (2023)