In this course, we will develop a coherent framework of theories and models in the field of regional economics. Compared to other branches of economics, regional economics is a relatively new formal branch of economics and recognizes the crucial importance of geography in the workings of a market economy. By incorporating variables of space and geography into traditional economic models, it has great relevance to real phenomena and policy questions in the real economic world.

We will focus primarily on two broad groups of theories that make up regional economics: Location theory, which explores the economic mechanisms by which activities are distributed in space; and regional growth and development theory, which explores the spatial aspects of economic growth and the geographic distribution of income and wealth.

In a previous semester, students will have learned how scarce resources are allocated in a market economy under competitive conditions. We will continue to reinforce these concepts, while examining the effects of market forces on spatial variables such as the location choices of households and firms; land use policy; labor market agglomeration; urban poverty; the development of transportation infrastructure; and urban and rural housing markets. The roles of natural resources, demographic base, location of industries, and factors determining regional growth and development will also be considered.

The focus of this course is on developing tools to understand and evaluate regional economic policies. As a result, the course will be mainly conceptual and theoretical. In other words, we will learn many institutional details of specific Federal, State, and local policies over the course of the semester, but our primary goal is to understand the economic principles behind the policies.

**Goals of the Course**

By the end of the semester we hope to understand and be able to apply the following concepts to real-life policy discussions:
1) Marginal cost and marginal benefit  (How do firms and households calculate the marginal cost and marginal benefit of competing economic activities? How do differences in geographic location affect the transactions costs in these activities? How do they change the choices that firms and households make? How do these concepts relate to concepts of efficiency?)

2) Competitive equilibrium  (How does the concept of a competitive equilibrium relate to the physical size, shape, and density of an urban city? Of a rural area? Of a suburban region? What does it mean for a market to be in competitive equilibrium? When and under what conditions does a market fail to reach a competitive equilibrium? What are the pros and cons of achieving an outcome that is not a competitive outcome?)

3) Efficiency and equity  (What does it mean for policy to promote efficiency? What does it mean for a policy to promote equity? Which policy goals are efficiency goals? Which policy goals are equity goals? How do these policies affect the relative distribution of income across localities, states, and countries? Democrats and Republicans often disagree with one another on public policy—which are disagreements about efficiency goals and which are disagreements about equity targets?)

4) Policy evaluation (Be able to use economic tools to provide intelligent, balanced, informed analysis of regional economic policies. Be able to provide economic analysis of proposed changes to regional policies and evaluate their relative merits.)

**Prerequisites**

440.601 *Microeconomic Theory*; 440.606 *Econometrics*.

**Course Website**

Available at --

**Office Hours**

Sally Kwak: skwak2@jhu.edu; M, F 1-2pm

**Readings**

Unfortunately, there is no single textbook that comprehensively covers models and concepts we will discuss. Listed below are some potentially helpful resources. Of these, the O'Sullivan text may be the most accessible to the greatest number of students. It also covers the greatest number of topics on our syllabus.

O'Sullivan, A. “Urban Economics”
This is a textbook with basic explanations of some of the theories and concepts to be covered. However, the text also includes many topics in urban economics that we will not address.

Capello, Roberta. “Regional Economics”
This is a slightly more advanced presentation of the models we will cover in lectures and may be useful for those who wish to see a deeper development of the concepts introduced in class.

Krugman, Paul. “Geography and Trade”
This is a series of lectures given at the Catholic University of Leuven in 1990. Before Krugman became famous for his op-ed column in the New York Times, he was a scholar with contributions in international trade and geography.

Fisher, Ronald C. “State and Local Finance”
This is a textbook that is useful for the portions of the course dealing with local finance but is not broadly applicable to our topic.

We will also periodically read and discuss academic work, available through www.jstor.org.

Requirements and Grades
Final class grades will be based on the following:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Four Problem Sets</td>
<td>20%</td>
</tr>
<tr>
<td>Midterm</td>
<td>40%</td>
</tr>
<tr>
<td>Final</td>
<td>40%</td>
</tr>
</tbody>
</table>

Problem sets will be graded as check, check-plus, or check-minus. The problems on the problem sets will be similar to the type of questions you may expect to encounter on the midterm and final exams. The midterm will be held in week 6 and the final will be held in week 14.

Lecture Schedule and Readings

Week 1

Intro to Regional Economics and Basic Economic Tools

Topics:
- Marginal cost and benefit
- Competitive equilibrium
- Efficiency and equity

Readings:
-- O’Sullivan, Ch 1.
-- Fisher, Ch 2.

Week 2

The Development of Regions: Production and Trade

Topics:
- Comparative advantage, scale economies
- Economics of scale and transportation costs

Distribute Problem Set #1.
Week 3  
**Job Dispersal, Agglomeration, and Urban Labor Markets**

**Topics:**
- Job Decentralization and wage variation
- Worker-firm job matching
- Local labor market agglomeration, job clustering

*Problem Set #1 Due.*

**Readings:**
- O’Sullivan, Ch. 3, especially pp. 37-43.
- Capello, Ch. 6, especially the model on p. 138. Also, pp. 194-196.

Week 4  
**City Size**

**Topics:**
- Job Decentralization and wage variation
- Worker-firm job matching
- Local labor market agglomeration, job clustering

*Distribute Problem Set #2.*

**Readings:**
- O’Sullivan, Ch. 4.

Week 5  
**Regional growth**

**Topics:**
- The effects of supply and demand on growth
- Agglomeration economies, multiplier effects
- Environmental factors
- Williamson’s theory of developmental disparities
- A neoclassical model of regional growth

*Problem Set #2 Due.*

**Readings:**
- O’Sullivan, Ch. 5.
- Capello, pp. 93-94

Week 6  
**Midterm**
Week 7  The Determination of Land Rent
Topics:
- Bid-rent curves
- Manufacturing, information, and residential sectors
- Public services, taxes, local amenities

Readings:
-- O’Sullivan, Ch. 6.

Week 8  Land Use Patterns and Zoning
Topics:
- Bid-rents
- Regional density, urban sprawl
- Policy responses to sprawl: land use policies
- Introduction to property taxes
Distribute Problem Set #3.

Readings:
-- O’Sullivan, Ch. 7, 9.
-- Fisher, Ch. 13, 14.

Week 9  Local Governments, Spatial Externalities, Land Development Controls
Topics:
- Land use externalities, market efficiency, zoning
- Growth regulations, rent extractions
- Urban sprawl

Problem Set #3 Due.

Readings:
-- O’Sullivan, Ch. 9.
-- Fisher, Ch. 13, 14.

Week 10  Regional Sorting and Community Competition
Topics:
- The Tiebout model
- Competition with land markets
- Empirical tax capitalization
Distribute Problem Set #4.

Readings:
-- O’Sullivan, Ch. 7.
-- Fisher, Ch. 13, 14.
Week 11  Segregation, Migration, and the Spatial Distribution of Poverty

Topics:
- Alternative theories of spatial segregation
- Segregation and economic outcomes
- More property taxes
- Economic mobility, migration

*Problem Set #4 Due.*

Readings:
-- O’Sullivan, Ch. 8.
-- Fisher, Ch. 5.

Week 12  The Spatial Mismatch Hypothesis

Topics:
- Space and unemployment
- Housing markets

Readings:
-- O’Sullivan, Ch. 13, especially pp. 283-290.

Week 13  Topics in International Trade

Topics:
- Center and periphery
- Sources of industry localization
- Localization and trade

Readings:

Week 14  Final Exam