

Chapter 1 : Giovanni Peri – People in the Social Science Departments at UC Davis

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Patterns, Issues, and Policies A. Introduction Papers in this volume survey the development of urban economics. By any reasonable standard, urban economics is a young specialty. Most of the following chapters survey a burgeoning volume of research, but research that has a history of only one or two decades. This short history is in contrast with other specialities, such as public finance, international economics or labor economics, that go back many decades. Its short history means that surveys of urban economics can be relatively precise and comprehensive. Thus, the papers in this volume cover virtually all the conceptual developments in the speciality. There are of course many applied studies, especially in recent years, pertaining to and published in many countries around the world. Coverage of applied studies is inevitably much more selective in most of the papers in this volume. In terms of conceptual developments and applied studies that employ careful theoretical and econometric tools, the papers in this volume provide remarkably broad coverage. In fact, Adam Smith had a remarkably elaborate view of cities and their functions. Fifty years later von Thunen introduced theoretical concepts that urban economists borrowed heavily. Marshall and most other neoclassical writers had surprisingly little to say about urban areas, especially given the rapid pace of urbanization in countries in which they were writing. Mills i, , Elsevier Science Publishers B. Nijkump After World War II, given the rapid growth of economic research and the gradual increase in the amount and quality of data available, research concerned with urban issues inevitably grew. Interestingly, one of the first important postwar contributions was an entirely empirical paper. In , Clark published estimates on urban population density functions for a variety of cities around the world, some going back to the early 19th century. Starting just after , there was an explosion of theoretical research on urban economics. There can be no doubt that theoretical research has been crucial to the development of urban economics from the beginning. Theoretical models provided a coherent framework within which to think about empirical issues. In addition, it posed specific hypotheses for estimation and testing with data. Equally important, it suggested conceptual issues that attracted to the subject fine theoreticians, whose relationship to urban economics was temporary - such as Dixit, Mirrlees and Solow. In this respect, urban economics stands in some contrast with some other applied specialities in economics. Labor economics, for example, grew as a recognized specialty with only a minor theoretical component, although much earlier than urban economics. Urban economics, having evolved only in the s and s, benefited from developments in micro economic theory that had occurred during earlier decades. Urban economists borrowed a rich set of tools in analyzing consumer, firm and market behavior. Indeed, the timing of early theoretical research in urban economics was in part the result of improvements in micro economic theory that took place during the early postwar period. One additional factor in the early conceptual development of urban economics should be mentioned. Urban economic theory requires the use of the tools of micro economic theory in a special spatial context. Although most micro economic theoretical analysis was either written in English or quickly become available in English, virtually all the early theoretical work on spatial analysis was in German. Thus, the use of spatial models to analyze urban economies had to await the availability of German literature to economists who were well versed in modern micro theory but did not read German. Advances in Urban Economics Finally, the relationship between positive and normative motivations in the early history of urban economics should be mentioned. It is more than coincidental that the surge of research on urban economics starting in the mids followed shortly the growth of concern with poverty in many countries and with racial issues in the United States. A desire to edify the growing government concern with poverty and racial issues motivated many economists to undertake research on urban problems. Urban economics shares this relationship with labor economics and some other specialties in economics. This pre-history of urban economic analysis should not be concluded without reference to the work of Hoover. Most of his writing is more properly classified as regional than an urban economics. But this patient insistence on the use of the best micro economic tools available and on their confrontation with spatial data both

educated and inspired scholars during a long career. All applied specialties in economics develop through interactions within and between theoretical and empirical research. Urban economics is no exception. The work of Clark, Hoover and a host of authors associated with Resources for the Future and Rand attests to the importance of empirical research in the early history of urban economics. Overview of the volume It is accurate to characterize the decade or so between the mids and the mids as an explosive period in theoretical analysis of urban spatial models. During that decade, tools of modern micro economic theory were applied to urban spatial analysis. These and more recent contributions are surveyed in Part 1 of this volume. By far the largest number of theoretical publications analyzed household location. This work is surveyed in Chapter 18 by Straszheim. Almost all such theoretical models analyze the interaction between housing demand and commuting in a utility maximization context. A key insight was the realization that the housing-price-housing-consumption pairs among identical consumers at different locations in an urban area trace out a compensated demand equation for housing. Also important were theorems as to the circumstances in which residents with particular incomes might cluster together in an urban area. On these and other issues, theoretical models had implications that could be tested with census and other data from many countries. The second major strand of analysis concerns business location, analyzed by Stahl in Chapter Such analysis long predates the birthdate of urban economics assigned above, but recent work has applied basic business location theory to a specifically urban context. That turns out to be quite complex because the spatial characteristics of urban areas differ markedly from those used earlier by E. Nijkamp Losch and others in analyzing business locations. Indeed, although Losch had ingenious analyses about clustering of business locations, he wrote nothing about spatial structure within an urban area. Household location choices are conditioned by, among other things, business locations; and business locations are conditioned by, among other things, household locations, since households are both the customers and the major input suppliers for most urban businesses. Therefore, the third strand of analysis is of general equilibrium models of a single urban area, analyzing simultaneous location determinants of both households and businesses. This subject is surveyed and unified by Brueckner in Chapter Only in the s did urban economists make progress with general equilibrium spatial models of an urban area that did not assume or imply that all business locations clustered together in the central business district. Although spatial analysis is in some degree the essence of urban economics, spatial detail comes at a high price. Modest amounts of sectoral and spatial detail deprive theoretical analysis of most qualitative results. Researchers are therefore driven to numerical analysis. Models of household and firm behavior are specified and a program is written that will solve the models for a set of household and business locations. Typically, such models are solved for a given urban area for a given year conditional on a spatial specification of dwellings and business capital that the urban area inherits from earlier years. Such models may include various exogenous variables, most importantly those resulting from government infrastructure and housing programs. Then, computer models can be simulated to estimate the effects of possible government actions, such as transportation improvements or low income housing programs. Kain surveys the extensive history of computer models in Chapter It is worth mentioning that this subject has a stronger European ancestry than has most urban modeling. Presumably, the reason is that there is more government planning of urban areas there than in North American or Japan. Computer models are mostly dynamic in that they trace through time the changes in an urban area as markets respond to an exogenous shock. But, until recent years, most. Starting in the late s, sophisticated dynamic theoretical models of urban adjustment began to appear. Spatial detail makes such models very complex and intractable, but remarkable progress has been made. This work is surveyed by Miyao in Chapter Indeed, most theoretical urban economic models are not only static but also long run. Simulation models, tracing year-to-year adjustments to shocks, emphasize short run phenomena resulting from durability of housing and other structures and from slow responses of economic agents. All available evidence suggests that urban spatial and other adjustments are very slow indeed. Research and writing by economists on specific urban markets and issues long Ch. Advances in Urban Economics predate the mids birthdate of urban economics. Such work is the subject of Part 2. Housing is by far the most important urban market, measured by asset or flow values, and it has long been studied by economists. Until the s, and except for a spurt of mostly low quality work in the late s, most housing analysis

was apparently not motivated by concern with low income housing problems or with government programs to improve low income housing. That is surprising and in some contrast with early research on general demand analysis, which was strongly motivated by concerns with nutritional problems of the poor. The late s and s have witnessed a surge of high quality theoretical and empirical research. This work has resulted in part from improved and more flexible theoretical tools that have become available, in part from better econometric estimation and testing models, in part from the availability of inexpensive and powerful computing and, very importantly, from the availability of micro housing data. Theoretical analysis of housing is surveyed in Chapter 24 by Arnott. An important motivation for much recent theoretical work has been to reduce the diversity of housing types to a manageable set of dimensions. Since a major source of housing diversity results from locational diversity within an urban area, some recent theoretical work has built on the spatial models whose analysis dominated the s and s. A second major motivation for theoretical housing analysis has been the important fact that housing services are an important and expensive component of consumer budgets, but housing equity is also the largest item in the asset portfolio of typical owner-occupiers. Consumption and investment aspects of housing could be analyzed quite separately except for tax advantages, in the U. That the second is more important than the first is suggested by similar rates of owner-occupancy in countries that are otherwise similar, in terms of income levels and housing costs, but differ as to tax status of owner-occupancy vs renting. Canada and the U. Yet tax status has been analyzed exhaustively whereas incentives effects of owner-occupancy have hardly been studied. Perhaps the most impressive recent development in urban economics has been the explosion of empirical studies of housing markets. Nijkamp work has been done on supply responses by construction, demolition and alterations. Olsen surveys empirical work on housing in Chapter Transportation economics also has a long history. Some of that history is associated with computer modeling and is surveyed by Kain. The entire subject is surveyed by Beesley and Kemp in Chapter

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In this respect, the recent publication of the Handbook of Regional and Urban Economics (vol 4) is potentially highly significant, presenting as it does a much broader representation of what economics has to say on spatial issues. We hope that the five reviews of this important book that followâ€”which include the perspective of a leading.