Economics offers us powerful theories about how actors – such as workers, households, firms, and public institutions – 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 can be allocated in a manner that is most efficient, but at the same time how to address 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 yield communities with safe, uncongested streets, robust natural areas, vital commercial districts, and broad-based economic opportunity. 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 future 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. The purpose of this segment is not to serve as an introduction to microeconomics (hopefully you have had that already), but rather to reprise key concepts of economic analysis, talk about problems of market failure, and introduce you to tools of policy analysis. 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

There are two required texts for this course:

- **Urban Economics** by Arthur O'Sullivan, which we will use extensively beginning in week 5. 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 online outlets such Amazon.com, Abebooks.com, Alibris.com or Powells.com.

- **Green Cities: Urban Growth and the Environment**, by Matthew E. Kahn (2006, Brookings Institution Press). This is a slim, inexpensive volume that we will read in the final week of class, and is available through PSU Bookstore or online.

For the first portion of the course, we will read several chapters from **Joseph E. Stiglitz, Economics of the Public Sector** (2000, 3rd ed., Norton). This book is available on 2-hour reserve at the PSU Library, and can be purchased online in used format.

Also, if you do not own one from your previous microeconomics coursework, you may also want to obtain a standard, introductory micro text such as N. Gregory Mankiw's **Principles of Economics**, or Paul Krugman and Robin Wells’ Microeconomics. Such texts can usually be obtained fairly cheaply online or at the PSU Bookstore; I will make a copy of each text available for 2-hour loan. A table with key microeconomic concepts discussed in the first three weeks and the corresponding chapters in Mankiw and Krugman & Wells will be posted on the D2L website.

In addition to these texts, there will be supplemental readings made available through the course’s Desire2Learn site (http://d2l.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 D2L.

**Assignment 1 (10%): Policy Analysis Memo.** For this assignment, you will prepare a brief (1000-1500 word) professional-style memorandum in which you will take a potential planning problem (to be given) and assess the case for planning intervention, analyze the
costs and benefits involved, and discuss the merits of alternative approaches to address the problem.

*Due: April 26th, 9am, to be submitted via D2L.*

**Assignment 2 (20%): Urban Density Analysis.** For a major metropolitan region (other than Portland) of your choosing, you will analyze tract-level changes in population density from 1970, 1990 and 2010, using data from the U.S. Census Bureau.

*Due: May 17th, 9am, via D2L.*

**Assignment 3 (20%): Urban Economic Analysis.** For the same chosen metropolitan region, you will analyze trends in poverty and racial segregation between 2000 and 2010, using Census data.

*Due: June 7th, 9am, via D2L.*

**Media Analysis & Commentary (10%):** At least once during the term, you will find, post to D2L and analyze (or critique), in at least 250-300 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 in relation to the urban planning field. 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 June 7th.

**Final Exam (30%):** There will be a final examination for the course, to be held during the scheduled examination week (June 11-15). The exam will be cumulative in nature, covering both segments of the course. Further information about the format will be provided later in the term.

**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. This may include participation in online discussions, above and beyond the media analysis assignment. Comments that are disrespectful to others, excessively and persistently off-topic, or otherwise inappropriate or disruptive will be detrimental to your participation grade. 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 through 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 24 hours ahead of the deadline and accompanied by a reasonable justification (to be determined by the instructor). A good rule of thumb is: if the reason could not have anticipated in advance, then it is generally reasonable. Deadlines in other
classes or at work generally do not meet this criterion. You will be given at least 2 weeks (usually more) to complete each assignment so plan ahead!

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. Per university policy, instances of academic dishonesty may result in a zero grade for those assignment(s).

COURSE OUTLINE

**Week 1 (Apr 3/5): Planning versus markets?**

Apr 3: 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 market-based economy? Should planners think more like economists? (Or should economists think more like planners?)

Readings:


Apr 5: How markets work (part 1)

We begin our brief section on microeconomics by reviewing foundational economic concepts of supply, demand, elasticity, and equilibrium analysis.

Readings: There are no assigned readings for this session, but you may want to go back and review the core chapters from any standard micro text. On D2L there will be a “correspondence chart” of chapters that you might consider reviewing for the sessions in Weeks 1-3.

**Week 2 (Apr 10): How markets work, how markets fail**

Apr 10: How markets work (part 2)

We will continue the discussion of microeconomics by taking on the concept of “efficiency,” which is central to how economic analysis gauges the allocation of scarce resources in society. What are the various meanings of efficiency, and what are the problems with the concept? How should planners weigh efficiency against other goals such as equity?
**Reading:** Stiglitz, *Economics of the Public Sector*, ch. 3, “Market Efficiency” and ch. 5, “Efficiency and Equity”

**NO CLASS APRIL 12th**

**Week 3 (Apr 17/19): How markets work, how markets fail (cont.)**

**Apr 17: How markets fail (part 1)**

Just as important – and perhaps more so, to urban planners – as knowing how markets work is to understand why and how they fail. In this first of two sessions on market failure we will focus primarily on the concept of “public goods” and how they are distinguished from other types of goods in a market economy (including those that are often publicly provided, such as education).

**Readings:** Stiglitz, ch. 4, “Market Failure,” ch. 6, “Public Goods and Publicly Provided Private Goods” and ch. 8, “Public Production and Bureaucracy”

**Apr 19: How markets fail (part 2)**

In this second session on market failure we will focus on the problem of “externalities,” or economic actions that have spillover effects – both positive and negative – on others but are not reflected in the incentives facing those actors. The classic example of this is pollution and environmental degradation, but the concept applies to a whole host of planning-related issues such as affordable housing. As such, we will debate the pros and cons of regulation- versus market-based approaches to deal with externalities.

**Reading:** Stiglitz, ch. 9, “Externalities and the Environment”

**Week 4 (Apr 24/26): Analyzing Policy Interventions**

**Apr 24: Primer on Policy Analysis**

With our brief review of microeconomic theory we have begun to assemble a rudimentary set of analytical tools for assessing, in economic terms, the value of proposals by planners and policy makers to intervene in the market through public programs, regulations, and so forth. In this session we will work through the kinds of analytical questions that planners should ask when confronted with urban problems or proposals for solutions.

**Reading:** Stiglitz, ch. 10, “The Analysis of Expenditure Policy”

**Apr 26: Cost-Benefit Analysis**

One widely used approach to policy analysis is to systematically estimate the projected benefits that will accrue over time from a project and compare them to the projected costs. While learning to do cost-benefit analysis well could be a class unto itself, in this session we will work through some examples of cost-benefit analysis in a planning context, using them to illustrate the merits and limitations of this approach and help you become a better consumer.

**Readings:** Stiglitz, ch. 11, “Cost-Benefit Analysis”

“Cost Benefit Evaluation of Ecoroofs” (D2L)

**APRIL 26th: ASSIGNMENT 1 DUE (9am, submit via D2L)**
Week 5 (May 1/3): 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.

Readings:

O'Sullivan, Urban Economics, Ch. 2-5 (pp. 17-117)


Week 6 (May 8/10): 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)


Week 7 (May 15/17): 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.

Readings:

O’ Sullivan, Ch. 10-11 (pp. 249-306)


MAY 17TH: ASSIGNMENT 2 DUE (9am, D2L)

Week 8 (May 22/24): 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)


**Week 9 (May 29/31): 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)


**Week 10 (June 5/7): 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.


**JUNE 7TH: ASSIGNMENT 3 DUE**