

Regional Economics
Economics 563
Fall 2009

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Economic development is one of today's most pressing policy concerns. Federal, state and local decision-makers are keenly interested in job and income creation; goals that are particularly important in rural and poor places. However, there are competing beliefs about what, if anything, government can do to foster local economic growth. Furthermore, there are often concerns that some "pro-growth policies" can have substantial negative effects on a region. In this course we will study regional development, looking at both its causes and consequences.

Theoretical and empirical regional development models will serve as the course's base. We will examine how a region's growth is affected by local characteristics, such as its endowment of natural resources and human and physical capital. We will also look at how regional growth is affected by technological change, the spatial concentration of economic activity, and national trends. Recognizing that non-economic factors can influence growth, we will carefully study the effect of public policy, institutions, law, geography, and culture.

Because growth invariably has "winners" and "losers," special attention will be given to its distributional impacts. In this context, we will examine growth's relationship with migration, unemployment, poverty, and other measures of well-being. Additionally, growth's inter-relationship with the environment will be an important subject.

While the course will have a rich theoretical foundation, the course is really about policy. Accordingly, extensive time will be devoted to problem formulation and analytical methods. To this end, one of the primary objectives is for students to strengthen their ability to frame, analyze, discuss and argue "real world" issues, using both quantitative and qualitative methods. To further ground the class in reality, outside speakers will address current issues and challenges in economic development policy-making.

Due to the material, some classes will be primarily a "lecture," while other classes will be discussion oriented. Regardless of topic or format, you are expected to be prepared! You will be evaluated based on two in-course team presentations, occasional homework assignments and a take home final exam. Pre-requisites include a good understanding of micro-economic theory and statistics, especially regression models.

Office Hours

Tuesday and Thursday: 10:00-11:30.

Attendance

Expected and encouraged.

Readings

Readings will be distributed one week before class. Most are available on the internet. If not, they will be emailed to you.

Student Evaluation

Take home final exam: 30 percent. You will have one to complete this and it will be due the last of scheduled classes.

In class presentations: 40 percent. You are expected to participate in two in-class paper presentations. Details will be provided in class.

Homework: 30 percent. I expect thoughtful and full attention to homework assignments.

Outline

1. Regional economics
 - a. Defining
 - b. Measuring regional economies
 - c. Growth and/versus development
2. Microeconomics of regional growth and the formation of cities
 - a. Firm location
 - i. Agglomeration
 - ii. Taxes
 - iii. Labor
 - b. Household location
 - i. Wages and amenities
 - ii. Spatial labor mismatch
3. Macroeconomics of regional growth and spatial income differences
 - a. Economic growth models
 - i. Export base model (static model of North and Tiebout)
 - ii. Neoclassical growth model (Solow)
 - iii. Endogenous growth model (Romer)
 - iv. New economic geography (Krugman)
4. Topics in regional economics
 - a. Entrepreneurship
 - b. Housing (and housing bubbles)
 - c. Economic growth and income distribution
 - d. Economic growth and the environment

1. Introduction—

- a. The role of space in economics
- b. Defining regional economics and regions:
- c. Describing an economy

*William A. Schaffer. 2010.

Chapter 1: Place and Space

Chapter 2: What is a Region?

Web Book of Regional Science:

<http://rri.wvu.edu/WebBook/Schaffer/Chapters%201&2%20S10%20for%20WVa.pdf>

*Martin Shields. 2003. *Using Employment Data to Better Understand Your Local Economy* Penn State University

http://cecd.aers.psu.edu/pubs/using_employment_data_to_better.htm

2. Location—What happens where and why? This section looks at various theories, empirical tests and policies related to location of firms and households.

FIRMS

What factors influence the location decisions of profit maximizing/cost minimizing firms?

General Literature Reviews

Josep-Maria Arauzo-Carod, Daniel Liviano-Solis and Miguel Manjón-Antolín. 2010. *Empirical Studies in Industrial Location: An Assessment of Their Methods and Results*. Journal of Regional Science 50(3):685-711

<http://onlinelibrary.wiley.com/doi/10.1111/j.1467-9787.2009.00625.x/abstract>

Timothy Bartik (1991). *Who Benefits from State and Local Economic Development Policies?* Kalamazoo: WE Upjohn

Transportation and Infrastructure: Early ideas of firm location center on transportation costs, with respect to either input or output markets.

*Philip McCann. 2001. *Industrial Location: The Location of the Firm in Theory*. Chapter 1 in *Urban and Regional Economics*. Oxford University Press.

*Chandra and Thompson (2000). *Does public infrastructure affect economic activity? Evidence from the rural interstate highway system*. Regional Science and Urban Economics. <http://www.sciencedirect.com/science/article/pii/S0166046200000405>

Strauss-Kahn, Vanessa and Xavier Vives (2009). *Why and where do Headquarters Move?* Regional Science and Urban Economics. 39(2):168-186.

http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6V89-4TNCG93-1&_user=5593168&_rdoc=1&_fmt=&_orig=search&_sort=d&_docanchor=&_view=c&_searchStrId=1005956854&_rerunOrigin=scholar.google&_acct=C000050221&_version=1&_urlVersion=0&_userid=5593168&md5=124105929a43dc9b8578860275d782d9

Regulation

*Levinson, Arik (1996). *Environmental regulations and manufacturers' location choices: Evidence from the Census of Manufactures*. *Journal of Public Economics* 62(1-2):5-29
<http://www.sciencedirect.com/science/article/pii/0047272796015721>

A. Jaffee et al. 1995. *Environmental Regulation and the Competitiveness of US Manufacturing: What Does the Evidence Tell Us?* *Journal of Economic Literature* XXXIII:132-163.

<http://www.cserge.ucl.ac.uk/Jeffe%20et%20al%201995.pdf>

Business Climate

*Thomas Holmes. 1998. *The Effects of State Policies on the Location of Industry: Evidence from State Borders* *Journal of Political Economy* 106:4 August
(<http://www.mpls.frb.org/research/SR/SR205.pdf>)

Taxes: A huge literature, worthy of its own 6 week course.

Literature Reviews

*Michael Wasylenko. 1997. *Taxation and Economic Development: The State of the Economic Literature*. *New England Economic Review* March:37-52
<http://ideas.repec.org/a/fip/fedbne/y1997imarp37-52.html>

Terry Buss. 2001. *The Effect of State Tax Incentives on Economic Growth and Firm Location Decisions: An Overview of the Literature* *Economic Development Quarterly*. 15(1):90-105. <http://edq.sagepub.com/cgi/content/abstract/15/1/90>

Theoretical Papers

*Charles E. McLure, Jr. 1970. *Taxation, Substitution, and Industrial Location* *Journal of Political Economy* 78(1):112-132 <http://www.jstor.org/stable/1829626?seq=8>

Empirical Papers

*Robert J. Newman. 1983. *Industry Migration and Growth in the South* *The Review of Economics and Statistics* 65(1):76-86
<http://www.jstor.org/pss/1924411>

*Todd Gabe and Kathleen Bell. 2004. *Tradeoffs Between Local Taxes and Government Spending as Determinants of Business Location* Journal of Regional Science 44(1):21-41. <http://onlinelibrary.wiley.com/doi/10.1111/j.1085-9489.2004.00326.x/pdf>

*Marlin Boarnet and William Bogart. 1996. *Enterprise Zones and Employment: Evidence from New Jersey* Journal of Urban Economics 40(2):198-215
<http://www.sciencedirect.com/science/article/pii/S0094119096900297>

Leslie Papke. 1994. *Tax Policy and Urban Development: Evidence from the Indiana Enterprise Zone Program* Journal of Public Economics 54(1):37-49.
<http://www.sciencedirect.com/science/article/pii/0047272794900698>

Leslie Papke. 1991. *Interstate Business Tax Differentials and New Firm Location: Evidence from Panel Data* Journal of Public Economics 45(1):47-68

Incentives

Yoonsoo Lee (2008). *Geographic Redistribution of US manufacturing and the Role of State Development Policy* Journal of Urban Economics 64:436-450
<http://www.sciencedirect.com/science/article/pii/S0094119008000363>

Policy Discussions

Robert Greenbaum and Jim Landers. 2009. *Why Are State Policy Makers Still Proponents of Enterprise Zones? What Explains Their Action in the Face of a Preponderance of the Research?* International Regional Science Review 32(4):466-479.

The Economic War Among the States. A policy workshop sponsored by the Minneapolis Fed that looks at state economic competition for firms via incentives.
http://www.minneapolisfed.org/publications_papers/issue.cfm?id=196

Daria Burnes, David Neumark, Michelle J. White. 2011. *Fiscal Zoning and Sales Taxes: Do Higher Sales Taxes Lead to More Retailing and Less Manufacturing?* NBER Working Paper No. 16932 <http://papers.nber.org/papers/w16932>

Agglomeration

*Duranton, Gilles and Puga, Diego. 2003. *Micro-Foundations of Urban Agglomeration Economies*. In Handbook in Urban and Regional Economics. Available at SSRN: <http://ssrn.com/abstract=468960>

*Glaeser, Edward L., Hedi D. Kallal, Jose A. Scheinkman and Andrei Shleifer. 1992. *Growth in Cities* Journal of Political Economy

*Stuart S. Rosenthal and William C. Strange. 2003. *Geography, Industrial Organization, and Agglomeration* Review of Economics and Statistics 85(2):377-393
<http://www.mitpressjournals.org/doi/abs/10.1162/003465303765299882>

HOUSEHOLDS

*Larry A. Sjaastad. 1962. *The Costs and Returns of Human Migration* The Journal of Political Economy 70(5, Part 2): 80-93.

*Jordan Rappaport . 2007. *Moving to Nice Weather* Regional Science and Urban Economics 37:375–398.

*Naskoteen, R.A. and M. Zimmer. 1980. *Migration and income: the question of self-selection* Southern Economic Journal 46:840-851.

*Jennifer Roback. 1982. *Wages, Rents, and the Quality of Life* The Journal of Political Economy 90(6):1257-1278.

School Choice

*Tiebout, Charles. 1956. *A pure theory of local expenditures.* Journal of Political Economy 64:416-424.

*Sandra E. Black. 2007. *Do Better Schools Matter? Parental Valuation of Elementary Education* Quarterly Journal of Economics 114(2):577-599.

*Randall Reback. 2005. *House prices and the provision of local public services: capitalization under school choice programs.* Journal of Urban Economics 57:275–301.

Sherwin Rosen. 1974. *Hedonic Prices and Implicit Markets: Product Differentiation in Pure Competition* Journal of Political Economy 82(1):34-55.

3. Regional Growth

Export base

Douglass C. North. 1955. *Location Theory and Regional Economic Growth* Journal of Political Economy (63)3:243-258.

Neoclassical Growth

Robert M. Solow. 1956. *A Contribution to the Theory of Economic Growth* The Quarterly Journal of Economics 70(1):65-94.

*George H. Borts. 1960. *The Equalization of Returns and Regional Economic Growth* The American Economic Review 50(3):319-347.

Smith, D. 1975. *Neoclassical Growth Models and Regional Growth in the US*. Journal of Regional Science 15(2):165-181.

Convergence

*Robert Barro and Xavier Sala-i-Martin. 1992. *Convergence* Journal of Political Economy 100(2):223-251. <http://links.jstor.org/sici?sici=0022-3808%28199204%29100%3A2%3C223%3AC%3E2.0.CO%3B2-L>

William J. Baumol . 1986. *Productivity Growth, Convergence, and Welfare: What the Long-Run Data Show* The American Economic Review 76(5):1072-1085.

*N.G. Mankiw, D. Romer and D. Weil. 1992. *A Contribution to the Empirics of Growth* The Quarterly Journal of Economics CVII(2):407-437.
<http://links.jstor.org/sici?sici=0033-533%28199205%29107%3A2%3C407%3AACTTEO%3E2.0.CO%3B2-5>

ENTREPRENEURSHIP

*Feldman, M. and J. Francis *Entrepreneurs and the Formation of Industrial Clusters* working paper Johns Hopkins <http://www.cs.jhu.edu/~mfeldman/Feldman%20-EFIC.pdf>.

*Acs, Zoltan and Catherine Armington. 2004. *Employment Growth and Entrepreneurial Activity in Cities* Regional Studies 38(8):911-927
http://econpapers.repec.org/article/tafregstd/v_3A38_3Ay_3A2004_3Ai_3A8_3Ap_3A911-927.htm

*Octávio Figueiredo, Paulo Guimarães, and Douglas Woodward. 2002. *Home-field advantage: location decisions of Portuguese entrepreneurs*. Journal of Urban Economics 52:341–361.

Kauffman Foundation. 2007. *On the Road to an Entrepreneurial Economy: A Research and Policy Guide* <http://www.kauffman.org/Details.aspx?id=200>.

NEIGHBORHOOD EFFECTS

*Benabou, R. 1993. *Workings of a City: Location, Education and Production* Quarterly Journal of Economics 108:619-652.

*Keizer, K., Lindenberg, S., & Steg, L. 2008. *The Spreading of Disorder*. Science, 322, 1681-1685.

*Kling, Jeffrey R., Jens Ludwig, and Lawrence F. Katz. 2005. *Neighborhood Effects on Crime for Female and Male Youth: Evidence from a Randomized Housing Voucher Experiment* Quarterly Journal of Economics 120(1):87-130.

LAND RENTS AND SPRAWL

*Edward L. Glaeser and Matthew E. Kahn. 2004. *Sprawl and Urban Growth* Harvard Institute of Economic Research Discussion Paper Number 2004

*Matthew E. Kahn. 2000. *The Environmental Impact of Suburbanization* Journal of Policy Analysis and Management 19(4):569–586.

*Nathaniel Baum-Snow. 2007. *Did Highways Cause Suburbanization?* Quarterly Journal of Economics 122(2).

*Matthew Kahn. 2011. *Do liberal cities limit new housing development? Evidence from California* Journal of Urban Economics 69(2):223-228

*Elisabeth R. Gerber, Justin H. Phillips. 2003. *Development Ballot Measures, Interest Group Endorsements, and the Political Geography of Growth Preferences* American Journal of Political Science 47(4):625–639.

SEGREGATION AND GHETTOS

*Kain, John F. 1968. *Housing segregation, Negro employment and metropolitan decentralization.* Quarterly Journal of Economics 82(2):175-197.

David M. Cutler; Edward L. Glaeser. 1997. *Are Ghettos Good or Bad?* The Quarterly Journal of Economics 112(3):827-872