

Regional Economic Development Theory

Philip Watson

Department of Agricultural Economics and Rural Sociology

University of Idaho

Office: AgSci 30

Office Hours: Wednesday 12:30PM – 2:30PM or by appointment

AgEcon J486/J586

Spring 2014

Tue, Thu 12:30 – 1:45

Albertson 203

Overview:

This course focuses on the causes and nature of regional economic growth and development with a special focus on rural economic development and the role of natural resources. Students will learn to understand the underlying economic forces that are acting on struggling communities who are attempting to deal with broad economic change; whether they are agricultural dependent communities, commercial fishing dependent communities, or forestry dependent communities. While each community is unique; they face many common economic challenges.

The material presented is grounded in economic theory, but the challenges facing communities require literacy in broad range of approaches to regional economic development. Students in this class are expected to gain technical literacy and proficiency in the use of economic theory and language to address economic development, planning, and public policy challenges while also appreciating the relationships to other development approaches. We will discuss the importance of social welfare theory; the power and limitations of markets to organize an economy; the significance of institutions in a community; the role of space in regional economic analysis; the importance of community capitals, attributes, and assets; and we will emphasize the interconnectedness of all of the different segments of a regional economy.

Objectives:

1. Gain a systematic overview of economic theory as applied to small open economies.
2. Develop a toolbox for analyzing the strengths and weaknesses of the community's economy.
3. Explore alternative processes for affecting change at the community level.
4. Improve the economic literacy of students interested in affecting change at the local level.

Text:

Community Economics: Linking Theory and Practice. Ron Shaffer, Steve Deller and Dave Marcouiller. Oxford: Blackwell Press 2004.

Readings:

In addition to the text the student is expected to provide a one page summary of an assigned reading. These one page summaries are in essence an executive summary of the article where you will identify the key points of the article and your interpretation of key points. The short summaries will be graded on a two point scale: **0—not done; 1—barely done; 2—completed.**

Grading:

There will be two exams in the class that will be worth 30% of your final grade each. The form of the exam will be essay where you will be given the opportunity to pick 4-5 questions from a list. The questions will follow the format of the discussion questions at the end of each chapter in the text. An example question might be: “It is said that there are three waves of economic development strategies, what are those three waves, what are their relative strengths and weaknesses, and which is most appropriate for a community to pursue?”

The short essays corresponding to the weekly readings will account for 20% of your grade.

Because of the seminar nature of this class, I expect there to be class discussions and 10% of your grade will be dependent on it. Please feel free to challenge ideas that are presented and offer your own experiences as they relate to the material being discussed in class.

Exam I:	30%
Exam 2:	40%
Short Essays:	20%
Class Participation:	10%

Graduate Credit:

Students taking this course at the 500 level will be expected to include mathematical derivations of the theoretical models discussed in the readings and in the chapters in their short essays. Whereas students taking the course at the 400 level are expected to summarize, critique, and synthesis the readings; students taking the course at the 500 level are expected to fully understand and derive the equations of the underlying theoretical models in the readings and in the chapters. Additional questions regarding the underlying mathematics of the theoretical models will be given to students taking the class at the 500 level for them to answer in their weekly short essays. There may also be additional test questions given to students taking the 500 level course pertaining to the more technical aspects of the material.

Additional Reading: Your weekly reading essays are the following in order.....

1. Warsh, D. 2006. The Invisible Hand and the Pin Factory. Chapter 4 In: Knowledge and the Wealth of Nations pp 37-47.
2. Walker, B. 1980. Urban planning and social welfare. *Environment and Planning A*, 12, pp.217-225.
3. Friedman, B. 2005. What Growth Is, What Growth Does. Chapter 1 In: The Moral Consequences of Economic Growth, pp 3-18.
4. Warsh, D. 2006. Endogenous Technical Change. Chapter 22 In: Knowledge and the Wealth of Nations pp. 289-304 (also includes the intro to the book).
5. Krugman, P. 1997. Geography Lost and Found. Chapter 2 In: Development, Geography, and Economic Theory. MIT Press.
6. Power, T. 1996. Thinking about the Local Economy. Chapter 1 In: Lost Landscapes and Failed Economies.
7. Cooke, S. and P. Watson. 2011. A Comparison of Regional Export Enhancement and Import Substitution Economic Development Strategies. *Journal of Regional Analysis and Policy* 41(1): 1-15.
8. Cooke, S. and B. Kulandaisamy. 2010. Wage Divergence between the Rocky Mountain States and the U.S.: Idaho Measures and Sources, 2001-2009. *Review of Regional Studies* 40(1) 99-124.
9. Porter, M. 2000. "Location, Competition and Economic Development: Local Clusters in a Global Economy." *Economic Development Quarterly*. 14(1):15-34.
10. Deller, S. and S. Goetz 2009. Historical Description of Economic Development Policy. Chapter 2 in Goetz, Deller and Harris (eds) Targeting Regional Economic Development.
11. Segedy, J. 1997. "How Important is 'Quality of Life' in Location Decisions and Local Economic Development?" in Bingham and Mier (eds). Dilemmas of Urban Economic Development Issues in Theory and Practice. Sage Pub. (include comment and rejoinder).
12. Lynch, R. 2004. *Rethinking Growth Strategies: How State Services Affect Economic Development*. Economic Policy Institute.
13. Shields, M., D. Barkley, and M. Emery. 2009. Industry Clusters and Industry Targeting. Chapter 3 in Goetz, Deller and Harris (eds) Targeting Regional Economic Development.
14. Watson, P, et al. 2007. "Determining Economic Contributions and Impacts: *What is the difference and why do we care?*" *Journal of Regional Analysis and Policy*. 37(2):141 146.

Course Schedule

Note: Book readings should be completed before the date listed and article summaries/discussions are due on the date listed.

Week	Day	Topic	Book Chapter	Article Due:
Week 1	Tuesday – 1/11	NO CLASS		
	Thursday – 1/16	Introduction		
Week 2	Tuesday – 1/21	Markets	Chapter 1	
	Thursday – 1/23	"		1
Week 3	Tuesday – 1/28	Social Welfare	Chapter 12	
	Thursday – 1/30	"		2
Week 4	Tuesday – 2/4	Growth Theory	Chapter 2	
	Thursday – 2/6	"		3
Week 5	Tuesday – 2/11	Growth Theory	Chapter 2	
	Thursday – 2/13	"		4
Week 6	Tuesday – 2/18	Spatial Issues	Chapter 3	
	Thursday – 2/20	"		5
Week 7	Tuesday – 2/25	Market Flows	Chapter 4	
	Thursday – 2/27	"		6
Week 8	Tuesday – 3/4	Land Markets	Chapter 5	
	Thursday – 3/6	"		7
Week 9	Tuesday – 3/11	TEST REVIEW		
	Thursday – 3/13	TEST ONE		
Week 10	Tuesday – 3/18	NO CLASS	SPRING BREAK	
	Thursday – 3/20	NO CLASS	SPRING BREAK	
Week 11	Tuesday – 3/25	Labor Markets	Chapter 6	
	Thursday – 3/27	"		8
Week 12	Tuesday – 4/1	Financial Markets	Chapter 7	
	Thursday – 4/3	"		9
Week 13	Tuesday – 4/8	Technology	Chapter 8	
	Thursday – 4/10	"		10
Week 14	Tuesday – 4/15	Amenities	Chapter 9	
	Thursday – 4/17	"		11
Week 15	Tuesday – 4/22	Public Goods	Chapter 10	
	Thursday – 4/24	"		12
Week 16	Tuesday – 4/29	Institutions	Chapter 11	
	Thursday – 5/1	"		13
Week 17	Tuesday – 5/6	Practical	Chapter 13	
	Thursday – 5/8	Review		14
Week 18	Tuesday – 5/13	FINAL		

Tentative Course Outline:

- 1) What is Economics?
- 2) What is Community Economic Development?
 - a. What is a community?
 - i. Group of people in a physical setting with geographic, political, social, and economic boundaries and with discernable communication linkages who work together to attain common goals
 - b. Approaches to studying communities
 - i. Qualitative
 - ii. Ecological
 - iii. Ethnographic
 - iv. Sociological
 - v. Economic
 - vi. Comprehensive
 - c. What is development?
 - i. Sustained progressive change to attain individual and group interests through expanded, intensified, and adjusted use of resources
 - ii. Economic growth vs. Development
 1. Equity vs. Equality
 - iii. Development
 1. Reduction in community vulnerability or increase in resiliency
 - a. Stated goals
 - b. Identify all affected/interested parties
 - c. Understanding of community relationships and cause/effect
 - d. Identify strategies
 - e. Implementation
 - f. Capacity building
 2. Goal is to increase social welfare of community
 - a. Whole community (not interest groups) are seen as unit for action
 - b. Goals come from within the community
 - c. Local people assume leadership
 - d. All segments of community are represented
 - e. Long run focus
 - f. Holistic and inclusive
 3. Fundamental issues
 - a. Helping communities understand the full range of choices available to alter their economic circumstances

- 3. Expand purchases by nonlocal people through appropriate advertising and promotions
 - 4. Ensure that key public services are more that are satisfactory
 - 5. Recognize the important role of transfers and nonlabor income to the community
 - iii. Increasing the recirculation of dollars in the community
 - 1. Import substitution
 - 2. Economic deepening
 - iv. Increasing the amount of resources available
 - 1. Community capital
 - v. Reallocate existing resources
 - vi. Changing the rules
 - vii. Acting smarter
 - viii. Getting lucky
 - h. Community entrepreneurship
- 4) Growth Theory
 - a. What is economic growth?
 - i. More.
 - 1. Generally measured in GDP, jobs, and earnings
 - b. Stages of growth
 - i. Export specialization
 - ii. Development of allied industries
 - iii. Further deepening, import substitution
 - iv. Regional hub
 - v. Innovation, preeminence, and agglomeration
 - c. Rostow-Kuznets stages of growth
 - i. Stages
 - 1. Traditional societies
 - 2. Establishment of preconditions for takeoff
 - 3. Takeoff
 - 4. Drive to maturity
 - 5. Age of high consumption
 - ii. Income distribution through the stages
 - 1. Lorenz curve
 - iii. “Creative Destruction” and “preserving the buggy whip”
 - iv. Critique of Rostow-Kuznets
 - d. Structural change models
 - i. Lewis model of structural change
 - ii. Patterns of development
 - iii. Critiques of structural change
 - e. Neoclassical growth theory – Solow-Swan

- i. Explaining income discrepancies across nations and income growth through time
 - ii. Derivation of the theory
 - iii. Spatial interpretation of the theory
 - iv. Critique of the theory
 - f. Endogenous growth theory
 - g. Smart growth?
- 5) Space and Community Economics
 - a. Why does space matter?
 - b. Classical location theory
 - i. Profit maximization in a spatial world
 - 1. Transportation costs and effective prices
 - ii. Cost minimization
 - iii. Demand Maximization
 - iv. Critique of classical location theory
 - c. Behavioral model
 - i. Objective functions
 - ii. Uncertainty
 - iii. Information
 - iv. Critique of behavioral approach
 - d. Institutional approach
 - i. Importance of institutions
 - e. Agglomeration in location theory
 - i. Regional comparative advantage
 - ii. Industry clusters
 - iii. Porter's approach
 - 1. Factor conditions
 - 2. Related and supporting industries
 - 3. Demand conditions
 - 4. Firm strategy, structure, and rivalry
 - f. Product life cycle
 - g. Limits to location theory
- 6) Concepts of Community Markets
 - a. Circular flow model
 - b. Export base theory
 - i. Total Output = Output for local consumption + Output for export
 - ii. Traditional vs. nontraditional base industries
 - iii. Insights of economic base theory
 - iv. Limitations of economic base theory
 - 1. Chasing smokestacks
 - 2. Lack of local investment
 - v. Base multipliers

- c. Central place theory
 - i. Range of goods and services
 - ii. Demand thresholds
 - iii. Central place hierarchy
 - iv. Shifts in hierarchy
 - v. Limitations of central place theory
 - d. Internal market analysis
 - i. Downtown vs. periphery shopping centers
 - ii. How trade areas differ
 - iii. Identify high potential internal market sectors
 - iv. Information of interest to retail and service sector prospects
 - v. Retail and service clustering
 - 1. Compatible clusters
 - 2. Complementary clusters
 - 3. Comparison clusters
 - vi. Developing a clustering strategy
- 7) Land Markets
- a. Land Economics
 - i. Productive land use
 - 1. Fertility based concepts of land rent
 - 2. Spatial perspective on land rent
 - 3. Von Thunen land rent model
 - ii. Economic basis of sprawl
 - 1. Exurbanization process
 - b. Economic land use planning tools
 - i. Public ownership
 - ii. Public regulations
 - 1. Zoning
 - 2. Urban growth boundary
 - iii. Publicly provided incentives
 - 1. Positive incentives
 - 2. Negative incentives
 - iv. Collaborative public-private market orientated land use tools
 - 1. Transfer of development rights
 - a. Conservation easements
 - 2. Purchase of development rights
 - a. Land trusts
- 8) Labor Markets
- a. Labor market concepts
 - i. Demand for labor
 - ii. Supply of labor
 - iii. Institutions and rules

- b. Labor market theories
 - i. Supply orientated
 - 1. Human capital theory
 - ii. Demand orientated
 - 1. Labor rules
 - iii. Signaling/screening theory
 - iv. Job competition theory
 - v. Segmented labor market theory
 - 1. Skilled and unskilled labor
 - vi. Labor leisure tradeoff
 - c. Community labor markets
 - i. Assumptions
 - ii. Unemployment
 - iii. Job matching
 - iv. Access to information
 - v. Labor mobility
 - vi. Discrimination
 - vii. Exploitation
 - viii. Contingent labor force
 - d. Poverty
 - i. Job creation
 - ii. Direct employment
 - iii. Job training
 - iv. Education
 - v. Subsidized public employment
 - vi. Wage subsidies
- 9) Financial Capital Markets
- a. Community capital
 - i. Stocks vs. flows
 - ii. Importance of financial capital to community economics
 - b. Capital markets
 - i. Sources of capital
 - ii. Segmented capital market
 - iii. Debt vs. equity in capital markets
 - 1. Debt
 - a. Secondary markets
 - b. Correspondent banking
 - c. New sources of capital
 - 2. Role of banks in community economic development
 - a. Where is the commercial bank using the dollars?
 - b. How are local banks using community funds?
 - c. What services does the local bank offer?

- d. What type of relations does the bank have with other financial institutions?
 - 3. Assisting new business formation
 - 4. Linking information
 - 5. Providing community leadership
 - iv. Equity and venture capitalism
 - 1. Impediments to the venture capital process
 - 2. Decision making process
 - v. Capital market failures
 - 1. Mobility
 - 2. Information
 - 3. Risk and uncertainty
 - 4. Regulations
 - 5. Discrimination
 - vi. Specific venture/equity capital market failures
 - 1. Bias against business life cycle
 - 2. Bias against market
 - 3. Bias against giving up ownership
 - 4. Bias against social rate of return vs. internal rate of return
 - vii. Policy responses to capital market failures

10) Technology and Innovation

- a. Revisit neoclassical growth model
 - i. Role of technology
- b. What are technology and innovation?
- c. Innovation or technology adoption
- d. Models explicitly incorporating technology
 - i. Product life cycle theory
 - ii. Growth center
 - iii. Disequilibrium theory
 - iv. Policy tools

11) Nonmarket Goods and Services: Amenities

- a. Concepts of nonmarket goods
 - i. Rival and exclusive goods
 - ii. Common pool
- b. The value of nonmarket goods and services
 - i. Use values
 - 1. Direct
 - 2. Indirect
 - ii. Non-use values
 - 1. Option, existence, and bequest
- c. Role of amenities in community economic development
- d. The temporal aspect of amenities

- e. Characteristics of Amenities
 - i. Nonproducibility
 - ii. Irreversibility
 - iii. High income elasticity of demand
 - iv. Nontradeable
 - f. Approaches to estimating the value of an amenity
 - i. Stated preference
 - 1. Contingent valuation
 - ii. Revealed preference
 - 1. Travel cost and hedonic models
 - g. Incorporating amenities into the realm of community economic analysis
 - i. Incomplete nature of traditional regional accounts
 - 1. Regional accounts
 - ii. How amenities relate to economic development
- 12) Local Government and Public Goods
- a. When private markets fail
 - i. Welfare economics
 - 1. First law
 - 2. Second law
 - ii. Market failures
 - iii. Tiebout's solution
 - b. Stylized model of local public markets
 - i. Determinants of supply of public goods
 - ii. Determinants of demand for public goods
 - c. Efficiency, Effectiveness, and Evaluation
 - d. Taxation
 - i. Purposes of taxes
 - 1. Sources of revenue
 - 2. Correct market failures
 - a. Double-dividend
 - ii. Qualities of a food tax system
 - 1. Revenue potential
 - 2. Efficient
 - 3. Equity
 - a. Progressive vs. regressive taxes
 - 4. Accountability
 - iii. Taxes, spending, and economic growth
- 13) Institutions and society
- a. Role of society and culture in economic development
 - b. Role of institutions in community economic development
 - i. Specific institutions
 - ii. Institutional change

- iii. Government as an institution
- iv. Incentives and subsidies
 - 1. Types of subsidies
 - 2. Critiques of government subsidies

14) Introduction to the methods of regional economics

- a. Benefit-cost analysis
- b. Shift-share analysis
- c. Location quotients
- d. Input-output
- e. Social accounting
- f. General equilibrium

15) Review and the future of community and regional economics

- a. Reoccurring themes in regional economics
 - i. Job creation
 - 1. Are all jobs created equal?
 - ii. Unintended side effects
 - 1. Externalities
 - iii. Public sector decision making
 - iv. Quality of life considerations
- b. Biophysical economics
- c. Sustainability