Regional Economic Development Theory

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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:
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 you 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 1: 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……


# Course Schedule

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

<table>
<thead>
<tr>
<th>Week</th>
<th>Day</th>
<th>Topic</th>
<th>Book Chapter</th>
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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
b. Engaging all segments of community in building long-term strategies

iv. Organizing paradigm
   1. Shaffer Star
      a. Space
      b. Resources
         i. Land, labor, all types of capital
      c. Markets
      d. Society
      e. Rules
      f. Decision-making

d. Economic fundamentals
   i. Social welfare
      1. Market efficiency and Pareto optimality
   ii. Demand
   iii. Supply
   iv. Market failures
      1. Externalities
         a. Technical
         b. Public goods
         c. Ownership
         d. Pecuniary

3) Welfare Economics - Policy Modeling and Decision Making
   a. Social capital
   b. Setting collective objectives – Social Welfare
      i. Utilitarianism
      ii. Libertarianism
      iii. Contractarianism
      iv. Arrow’s impossibility theorem
   c. Moving from social utility to policy action
   d. An objective approach to examining policy
   e. Addressing community needs: the relevance of public policy
   f. Identifying community strategies, goals, and objectives
      i. Different perspectives of community economic development policy choices
   g. Strategies for community economic development
      i. The Shaffer approach
      ii. Increasing the flow of dollars into the community
         1. Develop local industrial sites, public services, and potential employee information
         2. Develop community and regional facilities necessary to attract new employers
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. Irreversability
   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