Note: Try to develop a working knowledge of italicized terms highlighted in black.

1. Introduction to Course

2. O'Sullivan Chapter 1: Introduction to Urban Economics

Mixed feelings on cities
   Positive
   Negative

Urban economics covers
   Spatial economics

Role of cities in economy
   Creation and innovation
     Knowledge spillovers
   Learning
     College grads in metro areas
   Trade and production
   Consumption

Defining “urban”
   Population density
   Census definition (economist based)
     Urban population live in
       Urban place
       Urbanized area
       Central place(s)
       Urban fringe
   Census definition (jurisdiction based)
     Metropolitan population live in
       Metropolitan statistical area (MSA)
       Central city
       Consolidated metropolitan statistical area (CMSA)
       Primary metropolitan statistical area (PMSA)
       Central city

Figure 1.6: % change metro pop inside and out central city

Handout
Western future predicted growth

3. O'Sullivan Chapter 2: Why Do Cities Exist?

Interaction
   Economic, social, religious, political, protection, etc.
Region without cities
   Population density equal throughout
   Ignore non-economic reasons for people clustering together
Economics does not encourage city formation if:
1. Equal worker productivity
2. No scale economies in production
3. No scale economies in transportation

Trading Cities arise if (1) and (3) absent
Northern residents better at food production
Southern residents better at clothing production

Comparative Advantage

<table>
<thead>
<tr>
<th>Product</th>
<th>South output/hr</th>
<th>North output/hr</th>
<th>South Opp. Cost</th>
<th>North Opp. Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loaves</td>
<td>1</td>
<td>2</td>
<td>1 shirt</td>
<td>4 shirts</td>
</tr>
<tr>
<td>Shirts</td>
<td>1</td>
<td>8</td>
<td>1 loaf</td>
<td>¼ loaf</td>
</tr>
</tbody>
</table>

South has comparative advantage in food
North has comparative advantage in clothes

<table>
<thead>
<tr>
<th></th>
<th>South Loaves</th>
<th>South Shirts</th>
<th>North Loaves</th>
<th>North Shirts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in production</td>
<td>+2</td>
<td>-2</td>
<td>-2</td>
<td>+8</td>
</tr>
<tr>
<td>Result if exchange rate 2 shirts per loaf</td>
<td>-2</td>
<td>+4</td>
<td>+4</td>
<td>-8</td>
</tr>
<tr>
<td>Net effect of trade</td>
<td>0</td>
<td>+2</td>
<td>+2</td>
<td>0</td>
</tr>
</tbody>
</table>

Result: beneficial if specialized production and trade
Scale economies in transportation
Intermediaries collect goods for trade and transport
Best done near rivers, paths, valleys, etc.
People live nearby to bring to collection points

Factory Cities arise if (1), (2), and (3) absent
Scale economies in production present due to
Factor specialization of labor
Indivisible capital inputs
People need to live near factories
Land prices rise
Live at higher density

Figure 2.2: Market area of shirt factory
Speed of good transportation holding back size of city
Wagons, railroads, interstate highways, airplanes
Degree of scale economies holding back size of city
Industrial revolution in East Coast
Commuting costs holding back size of city
Factory employs more laborers
City land prices up
Pay more for home or farther commute
Factory must pay higher wage
Price of output (shirt) rises
Historical stylized fact: 20 minute “tolerable” commute
Mode of commute
Walk, wagon, streetcar, automobile

Historical insights
First cities
- Defensive and religious based
  - Cities allowed development of large-scale religion
  - Cities encouraged war
Greek and Roman
- Athens as market city
- Rome relied more on tribute
Feudal cities
- Safety inside walls
Industrial revolution and urbanization in U.S.
Figure 2.4

4. Wassmer Chapter 4: Urban Diversity/Economic Growth
Quigley article
2 Types on intense urban study by economists
(1) Intrametropolitan location patterns of households and firms
   - Theoretical models on where activity ought to belong
   - Socio-economic differences in pop leads to predictable differences in location patterns
(2) Overall patterns of growth in metropolitan regions/central cities
   - External economies of scale
     - Firm cost savings if operate in large/diverse economy
     - Arise through factors in Table 1
       - Scale economies, shared inputs, transaction costs, statistical economies
Wassmer (question 4, p. 55): Disadvantages to increased size and diversity?

5. Discussion
O’Sullivan (question 7 and 10, p. 38)

6. Homework Due the Start of Meeting 2

1) Read all of the material under meeting 2 in the syllabus schedule; come prepared to discuss.
2) One sentence, typed question regarding material that you read for next meeting but do not understand. An example from last week could have been: "I do not understand how scale economies in transportation increase the influence for people to cluster together and form cities."
3) Typed and double-spaced answers to discussion questions listed on syllabus for next meeting. These should be no longer than 2 pages long.