

Some Economic Approaches to the Study of Regions & Cities

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Regional or Spatial Economics

- Economic Geography adds the dimension of geography to economic analyses
- Focus on location of industries, housing, commerce, public institutions over time
- Key concepts: proximity, concentration, dispersion, comparative spatial patterns
- Concerned with trade flows, labor flows, and resource flows, among others



Levels of Geography



- Economic geography
 - Global production patterns and trade
 - Unit of analysis: nation state and multinational corporate enterprises
- Regional economics
 - Generally sub-national
 - May be rural or urban
 - Activity within a region may be analyzed at a small scale

Applied Regional Studies



- Economic development:
 - How and why does it occur in different places?
- Industrial location:
 - Why do particular industries locate in particular places?
- City location:
 - Why are cities located in particular places?

Trade and Economic Development



- Small isolated coal mining community
 - Exports all of its production of coal
 - Must import the majority of products used by residents – food, clothing, household good, cars, etc.
- Large integrated metropolitan area
 - Produces some products for export
 - Produces some products to supply the residents of the region

Size and Economic Impacts



- Small less developed communities
 - Economic Base (Export Share) is a greater proportion of the economy
 - Large spending leakages => small multipliers
- Large integrated metropolitan area
 - More residentiary production
 - Smaller spending leakage => larger multipliers

Economic Growth & Development



- Economic Growth – quantitative change
- Economic Development – qualitative or structural change
- Export led growth theory
 - A region increases in wealth and income with
 1. Increases in exports
 2. Increased import substitution
- Economic Development Policy
 - Costs and Benefits of Economic Development

Linked Industries



- Forward Linked Industries: Supply Inputs
- Backward Linked Industries: Purchase outputs and use these as inputs
- Economic Development of Industries =>
 - Development of these linked industries
 - A larger skilled labor pool
 - Scale economies

Models Used by Regional Economists



- Demographic and Economic Projection Models
 - Growth of the economy => population growth
- Economic Base Models
 - Identify basic industries
 - Develop forecasts of growth
- Input-Output Models
 - Analyze the inter-industry linkages

Location of Industries



- *Complete or partial immobility of land and other productive factors*
 - *Comparative advantage => specialization in production & trade*
- Economies of concentration (agglomeration)
- Costs of transport and communication

Technical Names



- *Imperfect factor mobility*
- Imperfect divisibility
- Imperfect mobility of goods and services

Advantage of Cities

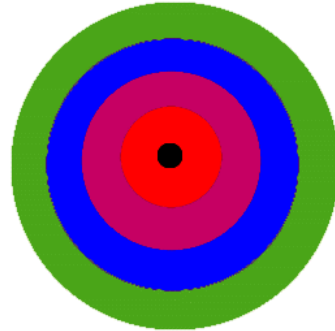


- Central Place Theory
- Proximity to resources and services
- Agglomeration economies
- Concentration of buyers and sellers
- Increased competition among sellers
- Large pool of buyers
- Human capital concentration => knowledge spillovers

Johann Heinrich von Thünen



- Economic model of cities
 - *The Isolated State* (1826)
- Land prices increase towards the center
- Transport costs increase further from the center
- “Land-price gradient”



Central City
Intensive Farming/Dairying
Forest
Extensive Field Crops
Ranching/Animal Products
Matt T. Rosenberg, 1997

Graphic from: <http://geography.about.com/>

William Alonso



- Built on von Thünen's ideas to explain land use patterns.
 - *Location and Land Use* (1964)
- His model assumes that the city:
 - Is flat and featureless
 - Has a single CBD
 - Has efficient transportation
 - Economic self interest motivates people
- Results:
 - Only highest value activities are in CDB
 - Residences and agriculture are in the periphery

Alfred Marshall



- British economist (1842-1924) who developed microeconomic models
 - Supply and demand characteristics
 - Market dynamics – short run, long run
 - Method of comparative statics
 - Cost theory
- Studied internal dynamics of industries and cities

Marshall's Explanation of Cities



- Human capital and knowledge spillovers
 - Workers find employment & firms labor
- Input markets
 - Backward linked industries reduce costs
- Labor market pooling
 - Pool of skilled labor share knowledge
 - Great advantage to employers

Paul Krugman



- Economies of scale in manufacturing
- Locate industry to minimize transportation costs
 - Balance access to inputs and customers
 - Minimizes costs of production and distribution
- Beneficial to consumers - cost

Robert Lucas



- Human capital – education, training, experience
- Spillovers – productivity benefits transferred among workers
- Productive exchanges increase with greater access to colleagues
- Cities have greater concentration of human capital -> self reinforcing

Contested Theories



- Much debate / research concerning the relative importance of these influences of urban growth
 - Natural advantage, infrastructure, markets, labor, education
- Other determinants:
 - Politics
 - Amenities / quality of life

Contradiction?



- Why are inner cities for the poor and the suburbs for the rich?
- Residences locate according to the trade-off between:
 - Savings in transportation costs associated with a more central location
 - Savings in per-unit costs associated with a more peripheral location

Residential Location



- More income => preference for more space increases more rapidly than preference for low travel costs
- Low income => will pay higher rents to avoid higher transportation costs.

Critique: Prejudice



- Land use segmentation could be based on racial and ethnic prejudice
- Earlier laws against sale to minorities
- Real estate agents steer buyers
- Political resistance to mixed use

Critique: Market Imperfections



- Neighborhood effects
- Zoning regulations
- Privileged information
- Developers sell to the dominant market
- Capital spending distribution
- Economic models do not focus on these
- Capitalist economic models do not fit ritual, administrative, colonial, or mercantile cities

Conclusion



- Regional economics: study of spatial arrangement of economic development.
 - Set of factors have been identified.
 - No clear agreement as to the relative importance of these factors and exactly how they affect the development of regions.
 - There are limitations to the use of traditional regional economic models.
- Alternative approaches: political, etc.
- Choice of model depends upon the purpose of the analysis, the audience for the work, and the perspective of the analyst.