

# Urban Economics



Arthur O'Sullivan

Third Edition

**THIRD  
EDITION**

# Urban Economics

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# Preface

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This book uses economic analysis to explain why cities exist, where they develop, how they grow, and how different activities are arranged within cities. It also explores the economics of urban problems such as poverty, inadequate housing, segregation, congestion, pollution, and crime.

The text is designed for use in undergraduate courses in urban economics and urban affairs. It could also be used for graduate courses in urban planning, public policy, and public administration. All of the economic concepts used in the book are covered in the typical intermediate microeconomics course, so students who have completed such a course will be able to move through the book at a rapid pace. Students whose exposure to microeconomics is limited to an introductory course will require more time and effort to move through the book. The book uses several concepts that are not covered in most introductory courses, including the consumer-choice model (indifference curves and budget lines), monopolistic competition, the input choice model (isoquants and isocosts), short-run and long-run curves, and interactions among markets.

The instructor's manual that accompanies this text contains a primer on indifference-curve analysis. It is written for students whose exposure to microeconomics is limited to an introductory course, but could also be used as a refresher for students who covered the consumer-choice model in an intermediate microeconomics course. The overview is produced in a format suitable for reproduction and distribution to students.

The book covers more topics than the typical urban economics text, giving instructors several options for a one-semester course in urban economics. A course that emphasizes interurban location analysis would cover all five chapters in Part I (Market Forces in the Development of Cities), while other courses might omit some of these chapters. The prime candidates for omission are Chapter 3 (Where Do Cities Develop?), Chapter 4 (The History of Western Urbanization), and Chapter 5 (How Many Cities?). A course emphasizing intraurban location analysis would cover all five chapters in Part II (Land Rent and Urban Land-Use Patterns),

while other courses might omit Chapter 9 (General-Equilibrium Land Use) or Chapter 11 (Land-Use Controls and Zoning). A course emphasizing urban problems would cover all four chapters in Part III (The Federal Response to Urban Problems) and several of the chapters in Part IV (Urban Problems and Local Government). The three chapters on local government (Chapters 16 through 18) could be omitted in a course emphasizing traditional urban problems, but would be an integral part of a course emphasizing urban public finance. The last two chapters deal with education and crime, two urban problems that receive less attention in other urban texts.

### ***Changes for the Third Edition***

For the Third Edition, I updated many of the tables and charts with the most recent data. In addition, I added an Appendix that reviews some of the key tools of microeconomic analysis, including supply and demand analysis, the theory of consumer choice, and marginal analysis. These tools are used in different parts of the book, and a quick review will be helpful for many students.

The instructor's manual for the book has two features that will be useful for many instructors.

1. Model answers to end-of-chapter exercises. The book has exercises and discussion questions at the end of each chapter (an average of 13 per chapter), and the instructor's manual provides a complete set of model answers.
2. Chapter outlines and suggested in-class exercises. Each chapter outline refers to several exercises and discussion questions that could be integrated into a lecture on the relevant material. I ask my students to develop a group answer to a particular question, and then I collect the answers and discuss some of the alternatives. This approach breaks up the lecture into more manageable sections and gives students an opportunity to become engaged in the learning process. It also gives the instructor some feedback on what students are learning.

**Arthur O'Sullivan**

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# Acknowledgments

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I am greatly indebted to my two mentors in urban economics. As an undergraduate at the University of Oregon, I was taught by Ed Whitelaw, whose enthusiasm for urban economics is apparently contagious. He used a number of innovative teaching techniques that made economics understandable, relevant, and even fun. As a graduate student at Princeton University, I was taught by Edwin Mills, one of the founding fathers of urban economics. He refined my mathematical and analytical skills and also provided a steady stream of perceptive insights into urban phenomena. I hope that some of what *I learned from these two outstanding teachers is reflected in this book.*

I am also indebted to many people who read the book and suggested ways to improve the coverage and the exposition.

**Arthur O'Sullivan**

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