

Questions for Midterms and Final

1. For the lecture on April 2, you read articles about the following four Los Angeles neighborhoods: Koreatown, MacArthur Park, Chinatown, and Skid Row. Based on your reading of those articles, what are the important trends in each of these neighborhoods, and what do those trends imply for the future of Los Angeles?
2. In your research paper, I asked you to compare and contrast your neighborhood (census tract) to the metropolitan statistical area in which it is located. How does the Census Bureau define a metropolitan statistical area, and what are the advantages and limitations of that definition as a tangible representation of the economic concept of an urban area?
3. In the *Economy of Cities*, Jane Jacobs identifies two types of cities: manufacturing cities and depot cities. What are depot cities, and what are the key economic principles that implicitly underlie her explanation why such cities exist?
4. In the *Economy of Cities*, Jane Jacobs identifies two types of cities: manufacturing cities and depot cities. What are manufacturing cities, and what are the key economic principles that implicitly underlie her explanation why such cities exist?
5. In some industries, business firms tend to locate in the same urban area. Examples are the computer industry in Silicon Valley, the movie industry in Los Angeles, and the publishing industry in New York. One explanation of this tendency is labor pooling. What do urban economists mean by labor pooling, and how does it explain the tendency of firms in the same industry to locate in the same urban area? For what types of industries is this explanation particularly persuasive? For what types of industries does this explanation seem unlikely to be relevant?
6. In *Southern California: An Island on the Land*, Carey McWilliams describes Los Angeles in the early days of its development. Do you see themes in McWilliams's history that account for the growth of Los Angeles into one of America's largest cities? If so, what are these themes, and why do you think they are important factors in the growth of Los Angeles? What are the limitations of the McWilliams' account as an analysis of the growth of Los Angeles? How does his analysis compare with the analysis of the growth of Detroit by Jane Jacobs?
7. In *Progress and Poverty*, Henry George wrote that the "association of poverty with progress is the great enigma of our time." During what historical period did George write his famous treatise, and what were the conditions of those times that inspired George's analysis? Using the simple model of cities developed in class, explain the economic forces that could produce the results George observed. What are the key assumptions of that model? Do you believe George's analysis is relevant for modern times? Why or why not?

8. Explain the simple model of cities developed in lecture on April 14 and use that model to explain the effect of a decrease in the cost of commuting. Who would benefit, who would lose, and how would the city change as a result?

9. In *Progress and Poverty*, Henry George argues that the market for land is the primary cause of the industrial depression of the 1870s. What is his argument, and how would you recast it in modern economic terms?

10. In *Progress and Poverty*, Henry George wrote the following:

Taxation which falls upon labor as it is exerted, wealth as it is used as capital, land as it is cultivated, will manifestly tend to discourage production much more powerfully than taxation to the same amount levied upon laborers, whether they work or play, upon wealth whether used productively or unproductively, or upon land whether cultivated or left waste.

Using the economic theory you learned in Economics 1, 100A, and/or 100B, explain this statement. In modern economic terms, what is George saying?

11. In *Progress and Poverty*, Henry George wrote the following:

Now, the way taxes raise prices is by increasing the cost of production, and checking supply. But land is not a thing of human production, and taxes upon rent cannot check supply. Therefore, though a tax on rent compels the land owners to pay more, it gives them no power to obtain more for the use of their land, as it in no way tends to reduce the supply of land.”

Using the economic theory you learned in Economics 1, 100A, and/or 100B, explain this statement. In modern economic terms, what is George saying?

12. Maguire Properties Incorporated is proposing to develop a 50 story office building on an empty lot at the corner of 7th and Figueroa in downtown Los Angeles. The building would have approximately 1 million square feet of office space to rent out and would cost about \$300 million to construct. The annual rent for office space in downtown Los Angeles is currently about \$24 per square foot. Assuming an interest rate of 7 percent per year and a growth rate in rent of 3 percent per year (as in class), what is the value of the empty lot? Please explain the economic logic behind your calculations? What do you see to be the primary limitations of your back-of-the-envelope calculation?

13. The cost of renting a square foot of office space is typically higher in a city's central business district than it is in suburban areas far from the city's center. Land values are also higher in the center than in suburban areas. However, the difference in land values between the city center and suburban areas is typically much greater in percentage terms than is the difference in the cost of renting a square foot of office space. Explain why the difference in land values is greater than the difference in the cost of renting office space.

14. In the typical urban area, residential population per square mile tends to decline with distance from a city's central business district. Why does this occur?

15. The housing price function is the price of housing that will make a household indifferent among residential areas at different distances from a city's central business district. Suppose there are two types of households: high income and low income. If all workers commute to work by the same mode of commuting, how will the housing price function of high-income households differ from the housing price function of low-income households? Given those differences, which type of household will tend to live closer to the center of the city?

16. In "Paradise Lost and Regained," Stephen LeRoy and Jon Sonstelie provide an account of why higher income households have tended to live farther from the center of cities than have lower income households and why that pattern seems to be changing now. What is their explanation, what is the crucial role of the income elasticity of housing demand in that explanation, and what are the weaknesses of their account as an explanation of modern trends?

17. In "Subcenters in the Los Angeles Region," Genevieve Giuliano and Kenneth Small use Journey to Work data from 1980 to define employment centers in the Los Angeles metropolitan area. How do they define an employment center, and what general conclusions do you draw from their results about the location of employment in the Los Angeles metropolitan area?

18. Public elementary and secondary schools are free in the sense that parents don't pay tuition for their children to attend those schools. Yet, in another sense, schools aren't free because families pay higher housing prices for living in school districts with good public schools. According to William Fischel, how does this relationship between housing prices and school quality affect the interests of homeowners in a school district?

19. Two events, *Serrano v. Priest* in 1971 and Proposition 13 in 1978, transformed the way public schools are financed in California. Describe those two events and explain how they transformed the financing of schools in California. Do you believe this transformation has been good for public schools in California?

20. Economists claim that a user toll on a congested highway can improve social welfare. What is the optimal toll for a congested highway, and how does it improve social welfare? According to Anthony Downs (“Still Stuck in Traffic”), what are the objections to increasing the use of such tolls? In your judgment, will the use of tolls increase or will the objections to their use become even stronger?
21. Urban economists often argue that fares on public mass transit, such as subways and commuter rail lines, ought to be subsidized through general purpose taxes. Explain the argument and critique it. As a general public policy, what are the pros and cons of subsidies for mass transit?
22. Based on the evidence presented in “Fiscal Realities,” what has been California’s policy for urban transportation policies over the last 30 years, and how is that policy reflected in the current conditions of travel in California cities? Explain what you believe that policy should be over the next 30 years.
23. Housing patterns in American cities display significant racial segregation. What explains this segregation?
24. For a conventional 30 year mortgage with a fixed nominal interest rate, explain the inflation risk for borrowers and lenders. Explain how a price-level-adjusted mortgage would change the allocation of that risk among borrowers and lenders?
25. The federal and state income tax systems create subsidies for both landlords and homeowners. Describe those subsidies, and explain how they would be likely to affect the decisions of households to own or rent their homes?
26. Housing prices increased dramatically from the middle of the 1990s to 2004, leading some to hypothesize that there was a “bubble” in the housing market. What do people mean by a housing price bubble, how did Himmelberg, Mayer, and Sinai assess that hypothesis, and what did they conclude?