



Housing and the Urban Economy

John M. Quigley

Fall 2005

Public Policy 275
Business Administration 286
City Planning 234

250 GSPP
Tuesdays
3:00–6:00

Introduction

This course considers the economics of urban housing and land markets from the viewpoints of investors, developers, public and private managers, and consumers. It considers the interactions between private action and public regulation—including land use policy, taxation, and government subsidy programs. We will also analyze the links between primary and secondary mortgage markets, securitization, and liquidity. Finally, the links between local housing and related markets—such as transportation and public finance—will be explored.

The course presupposes a working knowledge of microeconomics and a reasonable familiarity with technical concepts. Intermediate microeconomics at the standard of professional school training will be the level of discourse.

Reading List

The reading list includes a set of five or six articles and background readings which will frame each of the classroom discussions. Optional items, denoted as “Further Reading,” are truly optional. They are intended for those who want a deeper understanding or an extended illustration of the issues discussed in class. The reading list in HTML can be downloaded from Quigley’s homepage. The website is <http://elsa.berkeley.edu/~quigley/>.

Students enrolled in the course will receive a password which will allow them to download the required readings from any UC Berkeley address. Optional materials are on reserve in the social science library at the Haas School of Business.

A reader containing all course materials (in multiple volumes) may be obtained from Odin Readers, on sale at Ned’s Bookstore, 2480 Bancroft Way (phone: 204-0900).

Grades

Grades for the course will be determined by a three-hour closed book final exam (40 percent), class participation (10 percent), a short presentation (20 percent) and a term paper (30 percent). The scope of the written assignments will be described in a separate hand-out.

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READING LIST

Aug. 30 The Economic Role of Cities: Growth and Dispersion

Benjamin Chinitz, "Contrasts in Agglomeration: New York and Pittsburgh," in *Readings in Urban Economics*, edited by M. Edel and J. Rothenberg, New York: Macmillan, 1972: 90-99.

Edward L. Glaeser, "The Future of Urban Research: Non-Market Interactions," *Brookings Papers on Urban Affairs*, 1(1), 2000: 101-138.

Roland Andersson, John M. Quigley, and Mats Wilhelmsson, "University Decentralization as Regional Policy," *Journal of Economic Geography*, 4(4), 2004: 371-388.

John M. Quigley, "The Renaissance in Regional Research," *The Annals*, 35(2), 2001: 167-178.

John M. Quigley, "Urban Diversity and Economic Growth," *Journal of Economic Perspectives*, 12(2), 1998: 127-138.

Further Reading:

Timothy J. Bartik, "What Should the Federal Government Be Doing about Urban Economic Development?" *Cityscape* 1(1) 1994:267-292.

Peter Hall and Ann Markusen, *Silicon Landscapes*, Winchester, MA: Allen & Unwin, 1985.

Cityscape, 1(1), 1994, (Special Issue).

Alicia Munnell, "How Does Public Infrastructure Affect Regional Economic Performance?" *New England Economic Review*, Sept./Oct.1990: 11-32.

Edward L. Glaeser, *et al*, "Growth in Cities," *Journal of Political Economy*, 100, 1992: 1126-1152.

Sept. 6 Land Rent, Land Use, and Urban Form

Thomas J. Nechyba and Randall P. Walsh, "Urban Sprawl," *Journal of Economic Perspectives*, 18(4), 2004: 177-200.

Edward L. Glaeser and Matthew E. Kahn, "Decentralized Employment and the Transformation of the American City," *Brookings Papers on Urban Affairs*, 2, 2001: 1-47.

Peter Mieszkowski and Edwin S. Mills, "The Causes of Metropolitan Suburbanization," *Journal of Economic Perspectives*, 7(3), 1993: 135-147.

Jacob L. Vigdor, "Does Gentrification Harm the Poor?" *Brookings Papers on Urban Affairs*, 3, 2002: 133-182.

Further Reading:

Edwin S. Mills, *Studies in the Structure of the Urban Economy*, Johns Hopkins Press, 1979.

Richard F. Muth, "Energy Prices and Urban Decentralization," in A. Downs and K. Bradbury, eds., *Energy Costs, Urban Development, and Housing*, Washington, DC: Brookings Institution, 1984: 85-109.

Leon Moses and Harold F. Williamson, "The Location of Economic Activity in Cities," in *Readings in Urban Economics*, edited by M. Edel and J. Rothenberg, Macmillan, 1972: 124-134.

Edwin S. Mills and Luan Seude Lubuele, "Inner Cities," *Journal of Economic Literature*, 35(2), 1997: 727-756.

Alex Anas, Richard Arnott and Kenneth A. Small, "Urban Spatial Structure," *Journal of Economic Literature*, 36(3), 1988: 1426-1464.

Sept. 13 The Structure of Urban Housing Markets

Richard K. Green and Stephen Malpezzi, *A Primer on U.S. Housing Markets and Housing Policy*, Washington DC, The Urban Institute, 2003, Chapters 1-2, pp 1-84.

John F. Kain and John M. Quigley, "Measuring the Value of Housing Quality," *Journal of the American Statistical Association*, June 1970: 532-548.

Kenneth S. Rosen and Lawrence B. Smith, "The Price-Adjustment Process for Rental Housing and the Natural Vacancy Rate," *American Economic Review*, 83(4), 1983: 779-786.

V. Kerry Smith and Ju-chin Huang, "Can Markets Value Air Quality?" *Journal of Political Economy*, 103(1), 1995, 209-227.

Christine M. E. Whitehead, "Urban Housing Markets: Theory and Policy," in Paul Cheshire and Edwin S. Mills, eds., *Handbook of Urban and Regional Economics*, 3, North Holland, 1999: 1560-1594.

Further Reading:

N. Gregory Mankiw and David N. Weil, "The Baby Boom, the Baby Bust, and the Housing Market," *Regional Science and Urban Economics*. 19, 1989: 235-258.

Sherwin Rosen, "Hedonic Prices and Implicit Markets," *Journal of Political Economy*, 82(1), 1974: 334-55.

Stephen Sheppard, "Hedonic Analysis of Housing Markets," in Paul Cheshire and Edwin S. Mills, eds., *Handbook of Urban and Regional Economics*, 3, North Holland, 1999: 1560-1594.

Sept. 20 Residential Segregation and Housing Market Discrimination

Ingrid Gould Ellen, "Is Segregation Bad For Your Health? The Case of Low Birth Rate," *Brookings Papers on Urban Affairs*, 1(1), 2000: 203-238.

Reynolds Farley, et al., "The Residential Preferences of Blacks and Whites: A Four-Metropolis Analysis," *Housing Policy Debate*, 8(4), 1997: 763-800.

Helen F. Ladd, "Evidence of Discrimination in Mortgage Lending," *Journal of Economic Perspectives*, 12(2), 1998: 41-62.

Alicia Munnell, et al., "Mortgage Lending in Boston: Interpreting HMDA Data," *American Economic Review*, 86(1), 1996: 25-53.

John Yinger, "Measuring Racial Discrimination with Fair Housing Audits: Caught in the Act," *American Economic Review*, 76(5), 1986: 881-893.

David M. Cutler, Edward L. Glaeser, and Jacob L. Vigdor, "The Rise and Decline of the American Ghetto," *Journal of Political Economy*, 107(3), 1999: 455-506.

Further Reading:

Stephen L. Ross and John Yinger, *The Color of Credit*, MIT Press, 2002.

John F. Kain and John M. Quigley, *Housing Markets and Racial Discrimination*, Columbia University Press, 1975.

Jan Ondrich, Stephen Ross, and John M. Yinger, "Now You See It, Now You Don't: Why Do Real Estate Agents Withhold Available Houses from Black Customers," *Review of Economics and Statistics*, 85(4), 2003: 854-873.

Douglas Massey and N. Denton, *American Apartheid*, Harvard University Press, 1993.

Thomas C. Schelling, *Micromotives and Macrobbehavior*, Norton, 1978.

U.S. Census, *Census 2000*, <http://www.census.gov/segregation.html>

William J. Collins and Robert A. Margo, "The Economic Aftermath of the 1960s Riots: Evidence from Property Values," NBER Working Paper 10493, May 2004.

Sept. 27 Urban Transport, Neighborhoods and Housing Markets

Anthony Downs, *Still Stuck in Traffic*, Washington, DC, Brookings Institution, 2004, Chapters 2 and 3, pp 5-36.

"The Day the Traffic Disappeared," *New York Times*, Sunday, April 23, 2003, Section 6, p 42.

Katherine M. O'Regan and John M. Quigley, "Where Youth Live," *Urban Studies*, 35(7), 1998: 1187-1205.

Katherine M. O'Regan and John M. Quigley, "Accessibility and Economic Opportunity," in *Essays in Transportation Economics and Policy*, edited by José Gomez-Ibañez, et al., Brookings Institution, 1999: 437-468.

Christopher Jencks and Susan Mayer, "The Social Consequences of Growing Up in a Poor Neighborhood," in *Inner-City Poverty in the United States*, edited by L.E. Lynn and M. McGeary, Washington DC: National Academy Press, 1990: 111-186.

Harry J. Holzer, John M. Quigley and Steven Raphael, "Public Transit and the Spatial Distribution of Minority Employment: Evidence from a Natural Experiment," *Journal of Policy Analysis and Management*, 22(3), 2003: 415-444.

Further Reading:

John F. Kain, "The Spatial Mismatch Hypothesis: Three Decades Later," *Housing Policy Debate*, 3(2), 1992: 371-462.

Keith Ihlanfeldt, *Spatial Mismatch Between Jobs and Residences within Urban Areas*, *Cityscape*, 1(1), 1994: 219-244.

Charles F. Manski, "Economic Analysis of Social Interactions," *Journal of Economic Perspectives*, 14(3), 2000: 115-136.

Gerald Kraft and Thomas A. Domencich, "Free Transit," in *Readings in Urban Economics*, edited by M. Edel and J. Rothenberg, New York: Macmillan, 1972: 459-480.

Phillip Oreopoulos, "The Long-Run Consequences of Growing up in a Poor Neighborhood," *Quarterly Journal of Economics*, 118 (4), 2003: 1533-1575.

Oct. 4 **Federalism, and the Economics of Local Government**

John D. Donahue, "Tiebout? Or not Tiebout? The Market Metaphor and America's Devolution Debate," *Journal of Economic Perspectives*, 11(4), 1997: 73-82.

Wallace Oates, *Fiscal Federalism*, New York: Harcourt Brace Jovanovich, 1972, Chapters 1, 2, & 3.

John M. Quigley and Daniel L. Rubinfeld, "Budget Reform and the Theory of Fiscal Federalism," *American Economic Review*, 76(2), 1986: 132-137.

Wallace Oates, "Lump Sum Intergovernmental Grants Have Price Effects," in Peter Mieszkowski and William H. Oakland, eds., *Fiscal Federalism and Grants-in-Aid*, Washington, DC, The Urban Institute, 1979: 23-30.

Further Reading:

Daniel Rubinfeld, "The Economics of the Local Public Sector," in Auerbach and Feldstein, eds., *Handbook of Public Economics*, Vol. 2, 1985.

David Wildasin, "Theoretical Analysis of Local Public Economics," in Mills, ed., *Handbook of Regional and Urban Economics*, Vol. 2, 1987.

Wallace Oates, "Federalism and Government Finance," in John M. Quigley and Eugene Smolensky, eds., *Modern Public Finance*, Cambridge: Harvard University Press, 1994: 126-151.

Mancur Olson, "Toward a More General Theory of Governmental Structure," *American Economic Review*, 76(2), 1986: 120-125.

Oct. 11 Education Markets and Housing Markets

Sandra Black, "Do Better Schools Matter? Parental Valuation of Elementary Education," *Quarterly Journal of Economics*, 114(2), 1999: 577-599.

Caroline Minter Hoxby, "Does Competition Among Schools Benefit Students and Taxpayers?" *American Economic Review*, 90 (5), 2000.

Eric A. Hanushek, John F. Kain and Steven G. Rivkin, "Why Public Schools Lose Teachers," *Journal of Human Resources*, 34 (2), 2004: 326-354.

Wayne Wendling, "Housing Capitalization: Considerations for School Finance," *Education Evaluation and Policy Analysis*, March/April, 1981: 57-66.

David N. Figlio and Maurice E. Lucas, "What's in a Grade? School Report Cards and the Housing Market," *American Economic Review*, 94(3), 2004: 591-605.

Further Reading:

Eric A. Hanushek and Margaret E. Raymond, "The Confusing World of Educational Accountability," *National Tax Journal*, 54(2), 2001: 365-384.

Albert O. Hirschman, *Exit, Voice, and Loyalty*, Princeton University Press, 1970.

Silvia Fabio and John Sonstelie, "Did Serrano Cause a Decline in School Expenditures?" *National Tax Journal*, June 1995.

Wallace Oates, "The Effects of Property Taxes and Local Spending on Property Values," *Journal of Political Economy*, 77, 1969: 957-971.

Martin S. Feldstein, "Wealth Neutrality and Local Choice in Public Education," *American Economic Review*, 65(1), 1975: 75-89.

Eric A. Hanushek, "Throwing Money at Schools," *Journal of Policy Analysis and Management*, 1(1), 1981: 19-41.

Oct. 18 Housing Investment, Consumption and the Mortgage Market

Karl E. Case, John M. Quigley and Robert E. Shiller, "Comparing Wealth Effects: The Stock Market versus the Housing Market," *Advances in Macroeconomics*, 5(1), 2005: 1-32.

Peter Englund, Min Hwang, and John M. Quigley, "Hedging Housing Risk," *Journal of Real Estate Finance and Economics*, 24(1/2), 2002: 167-200.

Richard K. Green, "Can We Explain the Santa Clara Housing Market?" *Housing Policy Debate*, 13(2) 2002: 351-368.

James R. Follain, "Mortgage Choice," *AREUEA Journal*, 18(2), 1990: 125-144.

John M. Quigley and Robert Van Order, "Defaults on Mortgage Obligations and Capital Requirements for U.S. Savings Institutions," *Journal of Public Economics*, 44, 1991: 353-369.

Karl E. Case and Robert J. Shiller, "The Efficiency of the Market for Single-Family Homes," *American Economic Review*, 79(1), March 1989: 125-137.

William Goetzman, "The Single Family Home in the Investment Portfolio," *The Journal of Real Estate Finance and Economics*, 6(3), 1993: 201-222.

W. Scott Frame and Lawrence J. White, "Fussing and Fuming over Fannie and Freddie: How Much Smoke, How Much Fire?" *Journal of Economic Perspectives* 19(2), 2005: 159-184.

Further Reading:

Patric H. Hendershott and Robert Van Order, "Pricing Mortgages: An Interpretation of Models and Results," *Journal of Financial Services Research*, 1, 1987: 77-111.

Richard Meese and Nancy Wallace, "Testing the Present Value Relation for Housing Prices: Should I Leave My House in San Francisco?" *Journal of Urban Economics*, 35(1994): 245-266.

Jan K. Brueckner, "The Demand for Mortgage Debt: Some Basic Results," *Journal of Housing Economics*, 3, 1994: 251-262.

Yongheng Deng, John M. Quigley and Robert Van Order, "Mortgage Terminations, Heterogeneity, and the Exercise of Mortgage Options," *Econometrica* 68(2), 2000: 275-308.

Nov. 1 Taxes and Housing

Donal R. Haurin, *et al.*, "Does Homeownership Affect Child Outcomes," *Real Estate Economics*, 30(4), 2002: 635-666.

Congressional Budget Office, *Reducing the Deficit: Spending, and Revenue Options*, Washington, DC: US GPO, 1996, selected sections.

James R. Follain and Lisa Sturman, "The False Messiah of Tax Policy," *Journal of Housing Research*, 9(2), 1998: 179-200.

John M. Quigley, "Taxation of Owner-Occupied Housing," *The Encyclopedia of Housing*, Sage Publications, 1998: 580-582.

Susan E. Woodward and John C. Weicher, "Goring the Wrong Ox: A Defense of the Mortgage Interest Deduction," *National Tax Journal*, 40(3), September 1989: 301-313.

James M. Poterba, "Taxation and Housing: Old Questions, New Answers," *American Economic Review*, 82(2), 1992: 237-242.

George R. Zodrow, "The Property Tax as a Capital Tax: A Room with three Views," *National Tax Journal*, 54(1), 2001: 139-156.

Further Reading:

James M. Poterba, "House Price Dynamics: The Role of Tax Policy and Demography," *Brookings Papers on Economic Activity*, 2, 1991: 143-183.

Charles McClure, "The New View of the Property Tax: A Caveat," *National Tax Journal*, March 1977.

Henry Aaron, *et al.*, "The Property Tax: Progressive or Regressive?—A Roundtable Discussion," *American Economic Review*, 64(2), 1974: 212-235.

Patrick H. Hendershott, Gwilym Price, and Michael White, "Household Leverage and the Deductibility of Home Mortgage Interest," *Journal of Housing Research*, 14(1), 2003: 49-82.

Nov. 8 Government Housing Policy: National

Jean L. Cummings and Denise Di Pasquale, "The Low-Income Housing Tax Credit: An Analysis of the First Ten Years," *Housing Policy Debate*, 10(2), 1999: 251-308.

John M. Quigley, "A Decent Home: Housing Policy in Perspective," *Brookings-Wharton Papers on Urban Affairs*, 1(1), 2000: 1-47.

Eric A. Hanushek and John M. Quigley, "Consumption Aspects of Housing Allowances," in Katherine Bradbury and Anthony Downs, *Do Housing Allowances Work?*, Washington, DC: Brookings Institution, 1981: 185-246.

John M. Quigley, "New Directions for Urban Policy," *Housing Policy Debate*, 5(1), 1994: 97-106.

Otto A. Davis and Andrew B. Whinston, "The Economics of Urban Renewal," in James Q. Wilson, ed., *Urban Renewal: The Record and the Controversy*, MIT Press, 1966: 50-67.

Mark Shroder, "Social Experiments in Housing," *Cityscape*, 5(1), 2000: 237-259.

Further Reading:

Dan Durning and John M. Quigley, "On the Distributional Implications of Mortgage Revenue Bonds and Creative Finance," *National Tax Journal*, 38(4), 1985: 513-523.

Helen F. Ladd, "Spatially Targeted Economic Development Strategies: Do They Work?" *Cityscape* 1(1), 1994: 193-218.

Henry J. Aaron, "Rationale for a Housing Policy," in J. Paul Mitchell, ed., *Federal Housing Policies and Programs*, New Brunswick: Rutgers University Press, 1985.

Michael H. Schill and Susan M. Wachter, "The Spatial Bias of Federal Housing Law and Policy," *University of Pennsylvania Law Review*, 143(5), 1995: 1285-1342.

Ira S. Lowry, "Filtering and Housing Standards: A Conceptual Analysis," *Land Economics*, 36(4), 1960: 362-370.

Richard K. Green and Stephen Malpezzi, *A Primer on US Housing Markets and Housing Policy*, Washington, DC: The Urban Institute, 2003, Chapters 3-5.

Nov. 15 Government Housing Policy: Local

John M. Quigley and Steven Raphael, "Regulation and the High Cost of Housing in California," *American Economic Review*, 94(2), 2004.

Michael Dardia, *Subsidizing Redevelopment in California*, PPIC, January 1998, Chapters 1, 3, & 5: 1-10, 23-38, 57-67.

Bruce W. Hamilton, "Capitalization of Intra-jurisdictional Differences in Local Tax Prices," *American Economic Review*, 66(5), 1976: 743-753.

Edwin S. Mills, "Economic Analysis of Land Use Controls," in Peter Mieszkowski and Mahlon Straszheim, eds., *Current Issues in Urban Economics*, Baltimore: Johns Hopkins, 1979: 511-541.

Charles M. Tiebout, "A Pure Theory of Local Expenditures," in *Readings in Urban Economics*, edited by M. Edel and J. Rothenberg, New York: Macmillan, 1972: 513-523.

Peter Navarro, "Rent Control in Cambridge, Mass.," *The Public Interest*, 91, 1987: 83-100.

Marla Dresch and Steven M. Sheffrin, "Who Pays for Development Fees and Exactions?" Public Policy Institute of California, 1997, Chapter 3: 17-30.

Further Reading:

David Kirp, John Dwyer, and Larry Rosenthal, *Our Town: Race, Housing, and the Soul of Suburbia*, New Brunswick: Rutgers University Press, 1996.

John M. Quigley, "Residential Energy Conservation: Standards, Subsidies, and Public Programs," in *Developments in Energy Regulation*, Richard Gilbert, ed., University of California Press, 1991: 393-455.

Carl Mason and John M. Quigley, "The Curious Institution of Mobile Home Rent Control," Berkeley Program On Housing and Urban Policy, 2004.

John M. Quigley and Larry Rosenthal, "The Effects of Land Use Regulation on the Price of Housing: What Do We Know? What Can We Learn?" *Cityscape*, 8(1) 2005: 69-138.

Sarah Dunn John, M. Quigley and Larry A. Rosenthal, "The Effects of Prevailing Wage Requirements on the Cost of Low Income Housing," *Industrial and Labor Relations Review*, 59(1), 2005: 141-157.

Nov. 22 Can Housing be Made “Affordable”?

Nov. 29

Yongheng Deng, John M. Quigley, and Robert Van Order, “Mortgage Default and Low Downpayment Loans: The Cost of Public Subsidy,” *Regional Science and Urban Economics*, 26(3/4), 1996: 263-285.

Edward M. Gramlich, “Subprime Mortgage Lending,” Financial Services Roundtable May 21, 2004.

<http://www.federalreserve.gov/boarddocs/speeches/2004/20040521/default.htm>

Charles G. Field, “Building Consensus for Affordable Housing,” *Housing Policy Debate*, 8(4), 1997: 801-832.

Nico Calavita, et al., “Inclusionary Housing in California and New Jersey: A Comparative Analysis,” *Housing Policy Debate*, 8(1), 1997: 109-142.

Susan Wharton Gates, Vanessa Gail Perry, and Peter M. Zorn, “Automated Underwriting in Mortgage Lending,” *Housing Policy Debate*, 13(2): 323-351.

James E. Wallace, “Financing Affordable Housing in the United States,” *Housing Policy Debate*, 6(4), 1995: 785-814.

John M. Quigley and Steven Raphael, “Is Housing Unaffordable? Why Isn’t it More Affordable,” *Journal of Economic Perspectives*, 18 (1) 2004: 191-214.

John M. Quigley, Steven Raphael, and Eugene Smolensky, *Homelessness in California*, Public Policy Institute of California, 2001.

Joseph Gyourko and Peter Linneman, “The Affordability of the American Dream: An Examination of the Last 30 Years,” *Journal of Housing Research*, 4(1), 1994: 39-72.

Katherine P. Nelson and Jill Khadduri, “To Whom Should Limited Housing Resources Be Directed?” *Housing Policy Debate*, 3(1), 1992: 1-55.

Further Reading:

Andrew Caplin, et al., *Housing Partnerships*, MIT Press, 1997.

Cityscape, 3(2), 1997, Special Issue in honor of Don Turner.

Nicolas P. Retsinas and Eric S. Belsky, eds., *Low-Income Homeownership: Examining the Unexamined Goal*, Brookings Institution, 2002.

John M. Quigley, Steven Raphael, and Eugene Smolensky, "Homeless in California, Homeless in America," *Review of Economics and Statistics*, 83(1), 2001: 37-51.