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Topics in Urban Economics, Local Public Finance, and Political Economy: Spring 2021

COURSE DESCRIPTION:

The course provides an introduction to current research in urban economics, local public finance, and the political economy of state and local governments. The objective of the course is to prepare and encourage 2nd year and 3rd year Ph.D. students to start working on their own research. Taking this course is a necessary requirement for all Ph.D. students at Penn who expect me to serve as a member of their dissertation committee or as a reader of their third-year paper.

TEXTBOOK:

Sieg, H. (2020). *Urban Economics and Fiscal Policies*. Princeton University Press. The electronic version is fairly affordable and costs \$44.49 on Amazon. Hard covers are \$75 and also available in the Penn book store. All royalties that will be generated from your purchases will be donated to *Youth for Understanding*, which is an intercultural exchange program, or *MathCounts*, a non-for-profit that sponsors math competition for middle school students.

TOPICS:

The topics below are listed below. The reading list below is not meant to be a survey of the literature. It primarily covers my own research and the research of previous Ph.D. students at Penn or Carnegie Mellon. Finally, it contains a minimum number of selected papers by other researchers that you need to know if you want me to advise you on your own research. This course thus establishes some common ground and helps you to get up to speed. The textbook will provide you with an overview of

the most relevant topics in urban economics and local public finance. It also includes a detailed reading list that you can consult for further readings.

1. Fundamentals

(a) Introduction and Methodological Review:

Sieg (2020), Chapter 1 and Appendix.

Holmes, T. and H. Sieg (2015), "Structural Estimation in Urban Economics." in: Handbook of Regional and Urban Economics 5A." G. Duranton, V. Henderson and W. Strange (eds.), North Holland, 69-114.

(b) Agglomeration Externalities:

Sieg (2020), Chapter 2.

Lucas, R. and E. Rossi-Hansberg (2002). On the Internal Structure of Cities. *Econometrica*, 70, 4, 1445- 1476.

Arzaghi, M. and V. Henderson (2008). Networking off Madison Avenue. *The Review of Economic Studies*, 75, 4, 1011-1038.

Greenstone, M., R. Hornbeck, and E. Moretti (2010). Identifying Agglomeration Spillovers: Evidence from Winners and Losers of Large Plant Openings. *Journal of Political Economy*, 118 (3), 536-598.

Combes, P. , Duranton, G., Gobillon, L., Puga, D. and S. Roux (2012). The productivity advantages of large cities: Distinguishing agglomeration from firm selection. *Econometrica* 80 (6), 2543-2594.

(c) Fiscal Federalism and Local Public Goods:

Sieg (2020), Chapters 3, 4, 7, 8, 9, 12.

Epple, D. and H. Sieg (1999), "Estimating Equilibrium Models of Local Jurisdictions," *Journal of Political Economy*, 107, 645-681.

Epple, D., Romer, T. and H. Sieg (2001), "Interjurisdictional Sorting and

Majority Rule: An Empirical Analysis,” *Econometrica*, 69, 1437-1465.

Strumpf, K. and F. Oberholzer-Gee (2002) Endogenous Policy Decentralization: Testing the Central Tenet of Economic Federalism. *Journal of Political Economy*, 110, 1-36.

Sieg, H., Smith, V. K., Banzhaf, S. and R. Walsh (2004), Estimating the General Equilibrium Benefits of Large Changes in Spatially Delineated Public Goods. *International Economic Review*, 45 (4), 1047-1077.

Calabrese, S., Epple, D., Romer, T. and H. Sieg (2006), “Local Public Good Provision: Peer Effects, Voting, and Mobility,” *Journal of Public Economics*, 2006, 90 (6-7), 959-981.

Bayer, P., Ferreira, F., and McMillan, R. (2007). “A United Framework for Measuring Preferences for Schools and Neighborhoods.” *Journal of Political Economy*, 115 (4), 588-638.

Calabrese, S., Epple, D. and R. Romano (2012), Inefficiencies from Metropolitan Political and Fiscal Decentralization: Failures of Tiebout Competition, *Review of Economics Studies*, 79(3),1081-1111.

Epple, D., Romano, R. and H. Sieg (2012), “The Intergenerational Conflict in the Provision of Public Education,” *Journal of Public Economics*, 96 (3-4), 255-268.

2. Local Labor Markets:

Sieg (2020), Chapter 24.

Desmet, K. and E. Rossi-Hansberg (2010). Urban Accounting and Welfare. *American Economic Review*, 103, 6, 2296-2327.

Moretti, E. (2011). Local Labor Markets. *Handbook of Labor Economics*, Vol 4, Chapter 14, 1237-1313. Elsevier.

Baum-Snow, N. and R. Pavan (2012). “Understanding the City Size Wage

Gap.” *Review of Economic Studies*, 2012, 79(1): 88-127.

Diamond, R. (2016). The Determinants and Welfare Implications of US Workers’ Diverging Location Choices by Skill: 1980-2000. *American Economic Review*. 106 (3), 479-524.

Yoon, C. (2017). Estimating a Dynamic Spatial Equilibrium Model to Evaluate the Welfare Implications of Regional Adjustment Processes: The Decline of the Rust Belt. *International Economic Review*, 58 (2), 473-497.

Coen-Pirani, D. and H. Sieg (2019), “The Impact of the Tax Cut and Jobs Act on the Spatial Distribution of High Productivity Households and Economic Welfare.” *Journal of Monetary Economics*, 105, 44-71.

Sieg, H., Yoon, C. and J. Zhang (2020). Migration Controls, Urban Fiscal Policies, and the Accumulation of Human Capital in China. Working Paper.

3. Firm Locational Choices and the Economics of Density:

Sieg (2020), Chapter 13, 21.

Holmes, T. (2011): ”Diffusion of Wal-Mart and Economies of Density,” *Econometrica*, 79 (1) 253-301.

Ahlfeld, G, Redding, S., Sturm, D. and N. Wolf (2015). The Economics of Density: Evidence from the Berlin Wall. *Econometrica*, 83, 6, 2127-89.

Brinkman J., Coen-Pirani D. and H. Sieg (2015), “Firm Dynamics in an Urban Economy.” *International Economic Review*, 56 (4), 1135-64.

4. Transportation and Infrastructure:

Sieg (2020), Chapter 21.

Balboni, C. (2019) ”In Harm’s Way: Infrastructure Investments and the Persistence of Coastal Cities,” Working Paper.

Ahlfeldt, G., S. Redding and D. Sturm (2020). ”The Quantitative Evaluation of Urban Transport Infrastructure Improvements,” Working Paper.

5. Urban Housing Markets:

Sieg (2020), Chapters 23 and 25.

Epple, D., Gordon, B. and H. Sieg (2010), “A New Approach to Estimating the Production Function for Housing,” *American Economic Review*, 100 (3), 905-924.

Landvoigt, T, Piazzesi, M and M. Schneider (2015). “The Housing Market(s) of San Diego,” *American Economic Review*, 105(4), 1371-1407.

Chetty, R., N. Hendren, and L. Katz (2016). The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Project. *American Economic Review*, 106 (4).

Epple, D., Quintero, L. and H. Sieg (2020), “A New Approach to Estimating Hedonic Equilibrium Models for Metropolitan Housing Markets.” *Journal of Political Economy*, 128 (3), 948-983.

Calder-Wang, S. (2020). “The Distributional Impact of the Sharing Economy on the Housing Market.” Working Paper. Sieg, H. and C. Yoon (2020), “Waiting for Affordable Housing in NYC,” *Quantitative Economics*, 11 (1), 277-313.

6. Political Economy of State and Local Governments

Sieg (2020), Chapters 6 - 11

Ferreira, F. and J. Gyourko (2009). Do Political Parties Matter? Evidence from U.S. Cities Ferraz, C., and F. Finan (2011). Electoral Accountability and Corruption: Evidence from the Audits of Local Government. *American Economic Review*, 101 (4), 1274-1311.

Sieg, H. and C. Yoon (2017), “Estimating Dynamic Games of Electoral Competition to Evaluate Term Limits in U.S. Gubernatorial Elections,” *American Economic Review*, 107 (7), 1824-57.

Sieg, H. and C. Yoon (2020), “Estimating A Dynamic Game with Moral Haz-

ard and Imperfect Monitoring to Measure Policy Responsiveness Among U.S. Mayors,” Working Paper.

7. Urban Schools:

Sieg (2020), Chapter 18

Ferreira, M. (2007). Estimating the Effects of Private School Vouchers in Multi-district Economies, *American Economic Review*, 97 (3), 789-817.

Engberg, J, Epple, D., Imbrogno, J., Sieg, H. and R. Zimmer (2014), “Bounding the Treatment Effects of Education Programs That Have Lotteried Admission and Selective Attrition,” *Journal of Labor Economics*, 32 (1), 27-63.

Mehta, N. (2017), Competition in Public School Districts: Charter School Entry, Student Sorting, and School Input Determination, *International Economic Review*, 58(4): 1089-1116.

Cestau D., Epple D. and H. Sieg (2017), Admitting Students to Selective Education Programs: Merit, Profiling, and Affirmative Action. *Journal of Political Economy*, 125 (3), 761-797.

Epple, D., Jha, A. and H. Sieg (2018), “The Superintendent’s Dilemma: Managing School District Capacity as Parents Vote with Their Feet,” *Quantitative Economics*, 9(1), 483-520.

Agarwal, N. and P. Somani (2018). “Demand Analysis using Strategic Reports: An application to a school choice mechanism.” *Econometrica*, 86 (2), 391-444.

8. Higher Education:

Sieg (2020), Chapter 18

Epple, D., R. Romano and H. Sieg (2006), Admission, Tuition, and Financial Aid Policies in the Market for Higher Education, *Econometrica*, 2006, 74 (4), 885-928.

Fu, C. (2014). Equilibrium Tuition, Applications, Admissions and Enrollment

in the College Market”. *Journal of Political Economy* , 2014, 122(2): 225-281.

Sieg, H. and Y. Wang (2018), “The Impact of Student Debt on Education, Career, and Marriage Choices of Female Lawyers.” *European Economic Review*, 109, 124-147.

Epple, D., Romano, R., Sarpca, S., Sieg, H. and M. Zaber (2019), “Market Power and Price Discrimination in the U.S. Market for Higher Education,” *Rand Journal of Economics*, 50 (1), 201-225.

9. Crime:

sieg (2020, Chapter 19. Knowles, J., Persico, N. and P. Todd (2001). “Racial Bias in Motor Vehicle Searches: Theory and Evidence.” *Journal of Political Economy*. 109 (1), 203 pp.

GRADES:

Grades will be based on in-class participation, the presentation of papers, a research proposal, and a final exam, which covers the material of the textbook and the reading list. The final exam will be given on the last day of class.

PRESENTATIONS:

Each student must present at least one paper in class. LATEX and PDF files of the slides must be submitted, at least, one day before the presentation.

RESEARCH PROPOSAL:

The research proposal should include the following: a) a motivation of the topic that is to be studied; b) a short literature review summarizing the main papers in area and outlining the potential contributions of the proposed research; c) a data section describing the main sources and variables that are needed to conduct the empirical analysis. If possible, the proposal should provide some descriptive statistics of the main data set that is to be used in the research ; d) an outline of a model; e) discussion

of potential identification problems; f) an outline of a feasible estimation strategy, g) and a brief discussion of some policy questions that can be addressed with this model. The research proposal should be 15 pages and is due on May 1.