

# Cities and Economic Geography

Diego Puga

This course presents an overview of recent developments in economic geography and urban economics. The course begins with a review of the relationship between trade, agglomeration, and regional inequalities. This is motivated with an overview of the evolution of regional inequalities in Europe, which are then analyzed in light of the so-called 'new economic geography'. The second topic covers the process by which cities are formed and the role in this process of local governments and of the housing supply. We then study, both theoretically and empirically, the reasons that make firms and people cluster in space, and the extent and consequences of this clustering. The final two topics look at the drivers and implications of urban diversity and specialization, and at the distribution of city sizes.

## Topics and Reading list

### 1. Economic integration and the location of economic activity

#### *Main readings*

- Head, Keith and Thierry Mayer. 2004. The empirics of agglomeration and trade. In Vernon Henderson and Jacques-François Thisse (eds.) *Handbook of Regional and Urban Economics*, volume 4. Amsterdam: North-Holland, 2609–2669.
- Krugman, Paul R. 1991. Increasing returns and economic geography. *Journal of Political Economy* 99(3):484–499.
- Krugman, Paul R. and Anthony J. Venables. 1995. Globalization and the inequality of nations. *Quarterly Journal of Economics* 110(4):857–880.
- Puga, Diego. 1999. The rise and fall of regional inequalities. *European Economic Review* 43(2):303–334.
- Puga, Diego. 2002. European regional policy in light of recent location theories. *Journal of Economic Geography* 2(4):372–406.

### 2. The formation of cities: developers and self-organization

#### *Main readings*

- Becker, Randy and J. Vernon Henderson. 2000. Intra-industry specialization and urban development. In Jean-Marie Huriot and Jacques-François Thisse (eds.) *Economics of Cities: Theoretical Perspectives*. Cambridge: Cambridge University Press, 138–166.

### 3. The motives for agglomeration: what generates aggregate increasing returns?

#### *Main reading*

- Duranton, Gilles and Diego Puga. 2004. Micro-foundations of urban agglomeration economies. In Vernon Henderson and Jacques-François Thisse (eds.) *Handbook of Regional and Urban Economics*, volume 4. Amsterdam: North-Holland, 2063–2117.

- Rosenthal, Stuart S. and William Strange. 2004. Evidence on the nature and sources of agglomeration economies. In Vernon Henderson and Jacques-François Thisse (eds.) *Handbook of Regional and Urban Economics*, volume 4. Amsterdam: North-Holland, 2119–2171.

#### 4. Specialization and diversification in cities

##### *Main readings*

- Duranton, Gilles and Diego Puga. 2000. Diversity and specialisation in cities: Why, where and when does it matter? *Urban Studies* 37(3):533–555.
- Duranton, Gilles and Diego Puga. 2001. Nursery cities: Urban diversity, process innovation, and the life cycle of products. *American Economic Review* 91(5):1454–1477.
- Duranton, Gilles and Diego Puga. 2005. From sectoral to functional urban specialisation. *Journal of Urban Economics* 57(2):343–370.

#### 5. The distribution of city sizes

##### *Main readings*

- Duranton, Gilles. 2007. Urban evolutions: The fast, the slow, and the still. *American Economic Review* 97(1):197–221.
- Gabaix, Xavier. 1999. Zipf's law for cities: An explanation. *Quarterly Journal of Economics* 114(3):739–767.
- Gabaix, Xavier and Yannis M. Ioannides. 2004. The evolution of city size distributions. In Vernon Henderson and Jacques-François Thisse (eds.) *Handbook of Regional and Urban Economics*, volume 4. Amsterdam: North-Holland, 2341–2378.
- Rossi-Hansberg, Esteban and Mark L. J. Wright. 2007. Urban structure and growth. *Review of Economic Studies* 74(2):597–624.