Contents

List of figures xii
List of tables xiv
Introduction xvii

Part I **Urban and Regional Economic Models and Methods**

1 Industrial location: the location of the firm in theory 3
1.1 Introduction 3
1.2 Classical and neoclassical models of location 3
1.2.1 The Weber location-production model 4
1.2.2 The location effect of input transport costs 7
1.2.3 The location effect of output transport costs 8
1.2.4 The location effect of varying factor prices 10
1.2.5 The location effect of new input sources and new markets 14
1.3 The Moses location-production model 16
1.4 Market area analysis: spatial monopoly power 23
1.4.1 The Hotelling model of spatial competition 26
1.4.2 Price competition, quality competition, and product space 29
1.5 Conclusions 36
Appendix 1.1 The one-dimension location problem 36
Appendix 1.2 The general solution to the Weber–Moses problem 41
Appendix 1.3 The logistics-costs location-production model 43
Appendix 1.4 The Hotelling location game 46

2 Agglomeration and clustering 49
2.1 Introduction 49
2.2 Industrial clustering: returns to scale and geography 50
2.3 Agglomeration economies 51
2.3.1 The sources of agglomeration economies 51
2.3.2 The types of agglomeration economies 54
2.4 Clusters, firm types, and the nature of transactions 59
2.5 People clustering: creativity and urban consumption 64
2.6 Limited information, uncertainty, and the evolution of clusters 66
2.7 Conclusions 71

3 The spatial distribution of activities **73**
3.1 Introduction to industrial dispersal 73
3.2 Firm dispersion: price discrimination, market areas, and distance costs 74
3.2.1 Spatial pricing and price discrimination 74
3.2.2 Reilly's law of market areas 75
3.2.3 Linkage analysis and value–weight ratios 76
3.3 Urban hierarchies and classical central place theory 79
3.3.1 The Christaller approach to central places 80
3.3.2 The Lösch approach to central places 82
3.4 New economic geography (NEG) 86
3.5 Empirical regularities of the urban system: the rank-size rule 89
3.6 The structure and interpretation of regional data 94
3.7 Conclusions 96
Appendix 3.1 Spatial monopoly and price discrimination 96
Appendix 3.2 The derivation of Reilly's law 99
Appendix 3.3 The NEG model of the urban–regional economy 100
Appendix 3.4 The Löschian demand function 104

4 The spatial structure of the urban economy **107**
4.1 Introduction 107
4.2 The von Thunen model 108
4.2.1 Land competition in the von Thunen model 112
4.3 The bid-rent model for a firm 113
4.3.1 Land competition in the industry bid-rent model 117
4.4 The bid-rent model for a residential household 120
4.4.1 Land competition in the household bid-rent model 122
4.4.2 The treatment of environment in the household bid-rent model 126
4.5 Alternative models of distance–land price convexity 128
4.6 Critiques of urban economic models 132
4.6.1 Monocentricity 133
4.6.2 Land supply and land ownership 135
4.6.3 The optimal size of a city 137
4.7 Conclusions 138
Appendix 4.1 The slope of the rent gradient in the von Thunen model 139
Appendix 4.1.1 Distance to the edge of the von Thunen area of cultivation 141
Appendix 4.1.2 Distance to a change of land use in the von Thunen model 141
Appendix 4.2 The slope of the bid-rent curve 142
Appendix 4.2.1 The relative income elasticities of the demand for land and accessibility in the bid-rent model 145
Appendix 4.2.2 Environmental changes and bid-rent analysis 146

Appendix 4.3 Property asset appreciation and land price-distance convexity: the role of urban spatial growth 147
Appendix 4.3.1 Property asset appreciation and land price-distance convexity: the role of income growth in a spatially constrained city 149
Appendix 4.4 Optimum trip frequency and rent-gradient convexity 151

5 Regional specialization, trade, and multiplier analysis 154
5.1 Introduction 154
5.2 The economic base model 156
5.3 Identifying the basic and non-basic sectors 160
5.3.1 The assumptions method 160
5.3.2 Location quotients 160
5.3.3 Choosing between the alternative economic base approaches 163
5.4 Keynesian regional multiplier 166
5.5 Comparing the economic base and Keynesian regional multipliers 172
5.6 Impact analysis 173
5.7 Regional input-output analysis 175
5.7.1 Additional comments on regional input-output analysis 178
5.8 Conclusions 180
Appendix 5.1 The simple static and dynamic Keynesian multiplier models 182
Appendix 5.2 The relationship between the alternative forms and uses of location quotients in the construction of regional input-output tables 183
Appendix 5.2.1 Estimating regional trade using location quotients where an updated national input-output table is not available 184
Appendix 5.2.2 Constructing regional input-output tables by adjusting national tables 187
Appendix 5.3 The general solution to the input-output model 190

6 Regional and interregional labour market analysis 193
6.1 Introduction 193
6.2 Wages and labour markets 194
6.2.1 A neoclassical approach 194
6.2.2 A Keynesian approach 198
6.3 Regional labour markets, wage flexibility, and capital utilization 200
6.4 Regional labour market adjustment 203
6.4.1 Regional capital adjustment 205
6.5 Wages and interregional labour migration 209
6.5.1 The disequilibrium model of interregional labour migration 209
6.5.2 The equilibrium model of interregional labour migration 213
6.5.3 The endogenous human-capital model of migration 215
6.5.4 Additional comments on wages and migration 218
6.6 Non-wage-related models of interregional migration 221
6.6.1 The gravity model of migration 221

6.6.2 The life-cycle model of migration 223
6.7 Conclusions 223
Appendix 6.1 The Roback (1982)–Tiebout (1954) model of consumption 225
Appendix 6.2 The model of human capital 227
Appendix 6.3 The Roy (1951) model of migration 229

7 Regional growth, factor allocation, and balance of payments 234
7.1 Introduction 234
7.2 Neoclassical regional growth 235
7.2.1 The one-sector model of regional factor allocation and migration 235
7.2.2 The two-sector model of regional factor allocation and migration 240
7.2.3 The relationship between the one-sector and the two-sector regional models 243
7.3 Regional growth accounting and production function analysis 247
7.4 Keynesian perspectives on regional growth and balance of payments 254
7.4.1 The balance of payments approach to regional growth 255
7.4.2 The Verdoorn law and cumulative causation 262
7.5 Convergent growth or divergent growth? 265
7.5.1 Innovation and technological change 266
7.5.2 Alternative notions of capital 268
7.5.3 Institutions and social capital 269
7.6 Conclusions 271
Appendix 7.1 The Cobb–Douglas production function and growth accounting 272
Appendix 7.2 Proof of the relationship between wage growth and labour productivity growth in the Cobb–Douglas framework 274

Part II **Globalization: Cities, Regions, and Economic Policy**

8 Economic geography and economic history 279
8.1 Introduction to urbanization, industrialization, and globalization 279
8.2 Globalization, urbanization, industrialization: the sixteenth to the nineteenth century 282
8.3 Globalization, urbanization, and industrialization in the twentieth century 290
8.4 Recent features of urbanization and globalization 295
8.5 Modern globalization: global firms, global regions, and global cities 298
8.6 Conclusions 301

9 Cities and regions in the modern global economy 303
9.1 Introduction 303
9.2 Different types of spatial transactions costs 304
9.2.1 Falling spatial transactions costs 305
9.2.2 Rising spatial transactions costs 306

9.3 Economic geography is spiky and uneven 310
9.3.1 Spatial equilibrium and geographical variations in productivity 313
9.4 The economic performance of today's cities and regions 315
9.4.1 Scale and productivity in capital and dominant cities 317
9.4.2 Connectivity in capital and dominant cities 319
9.5 Non-core regions, intermediate regions, and peripheral regions 322
9.6 Conclusions 325
Appendix 9.1 Interpreting convergence–divergence considering the spatial units 326
Appendix 9.2 Interpreting cumulative regional growth patterns 327

10 Modern urban and regional economic policy analysis 330
10.1 Introduction to the modern urban and regional policy context 330
10.2 Urban economic policy 332
10.2.1 Urban zoning policies 333
10.2.2 Urban regeneration policies 336
10.2.3 Greenbelts 342
10.3 Regional economic policy 344
10.3.1 Traditional regional policies 345
10.3.2 The project-based welfare effects of regional policy 348
10.3.3 The macroeconomic effects of regional policy 351
10.4 New debates in regional policy 354
10.4.1 The space-blind approach 356
10.4.2 The place-based approach 359
10.5 The differences between space-blind and place-based approaches 363
10.5.1 The interactions between geography and institutions 363
10.5.2 The nature of long-term development processes 364
10.5.3 The nature of national–regional decision-making processes 364
10.5.4 The intentions versus the outcomes of policies 365
10.5.5 Insights into the nature of regional and national development challenges 366
10.5.5.1 Different views regarding institutions and geography 366
10.5.5.2 Different views regarding historical urbanization–development processes 368
10.5.5.3 Different views regarding welfare provision and labour mobility 368
10.6 Conclusions 369
Appendix 10.1 The value and (mis)pricing of places 371
Appendix 10.2 Space-blind approaches and the provision of welfare payments 374

Bibliography 376
Index 398