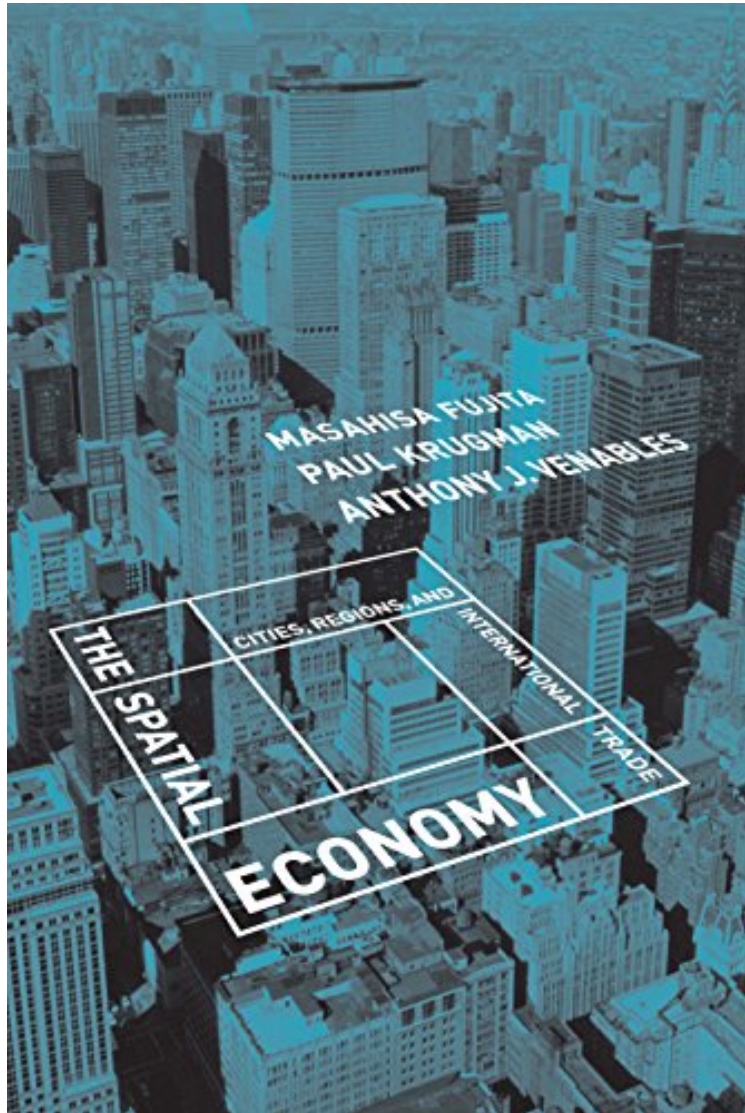


(Mobile pdf) The Spatial Economy: Cities, Regions, and International Trade (MIT Press)

## The Spatial Economy: Cities, Regions, and International Trade (MIT Press)

*Masahisa Fujita, Paul Krugman, Anthony J. Venables*  
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**Masahisa Fujita, Paul Krugman, Anthony J. Venables : The Spatial Economy: Cities, Regions, and International Trade (MIT Press)** before purchasing it in order to gauge whether or not it would be worth my time, and all praised The Spatial Economy: Cities, Regions, and International Trade (MIT Press):

15 of 15 people found the following review helpful. An instant classic in urban economics By Stephen R. Laniel This is the most I've enjoyed an economics book since Sam Bowles's "Microeconomics". Like Bowles's book, it offers crystal-clear writing attached to non-scary mathematics. It's less wide-ranging than Bowles's book, but the amount of amazement per page is comparable. In the case of "The Spatial Economy", the amazement comes from how much

mileage they get from very simple models. They're trying to answer some questions that lay dormant in economics for many years, namely: why do cities form where they do? How important are first-mover advantages for cities? (I.e., what would have to happen for New York to no longer be top dog?) How do national boundaries affect the distribution of industries within a given nation? How does trade liberalization (for instance, NAFTA) change that distribution? How can the same methods used to study cities help us understand international trade? One way to start modeling cities is to assume a built-in tension in their size: as a city grows more dense, it draws more businesses to it, but also pushes some out into the suburbs. It draws them because they want to be where the customers are ("forward linkage") and also want to be where their suppliers are ("backward linkage"). It pushes them away because of land rents: the denser the city becomes, the higher the rent. One of the most interesting parts of the book is that they don't actually model land rents at all. In essence, all of their models derive from varying assumptions about transportation costs, forward linkages, and backward linkages. From these meagre beginnings, they get quite stunning results. One particularly charming chapter evolves their model through time as the population increases and companies move out into the hinterlands; cities merge and shift and grow, all from a quite simple dynamic, with a few assumptions about costs and market structure. At every step, they go through basically the same motions. First, derive the wage at any point in the city or its suburbs, using some fairly unrealistic assumptions about zero-profit businesses. Do this for a second, nearby city as well. Deflate the wages in both cities by something akin to the Consumer Price Index; this gives you the real wage in both places. Then divide one by the other to get the ratio of real wages; if this number is not equal to 1, then employees have an incentive to move from one city to the other. Evolve the model through time until the real wage ratio equals 1 everywhere. Normally this wage-ratio formula is rather complicated and analytically intractable. They simplify things a great deal by coming at the problem from another direction: assume that all cities are identical at the start -- in particular, that they all have identical populations. Now take the derivative of the wage ratio in the neighborhood of this "symmetric" configuration. (It took me a while to figure out that "symmetric" meant "equal everywhere"; it also took me a while to realize that when they say "linearize," they mean "take the derivative." Both usages make sense; I'm just slow.) If a small movement of employees from one city to another leads to a cascade, wherein a flood of people follow in pursuit of higher wages, then the symmetric equilibrium is not stable; the authors call this the "break point." Symmetry breaking leads to the formation of a new city. Then the question becomes: is this new equilibrium with unequally sized cities sustainable, or will it also fall apart when a few employees pick up and leave? If this "asymmetric equilibrium" is stable for certain values of the parameters, then the authors label this bundle of parameters the "sustain point." The math is not hard, though the sheer volume of symbols is imposing. There's some calculus -- a derivative here, an integral there -- but it's mostly just a lot of algebra, and a lot of tricks for simplifying complicated expressions. The authors are good writers, so they refuse to use equations where words will say the same thing. They're also straightforward about the problems their models face. One of these problems is particularly intriguing to me, namely the well-known fact that the distribution of city sizes approximately follows a power law. That is, the second-largest city tends to be 1/2 the size of the largest city, the third-largest tends to be 1/3 the size, and so on. This discovery is most famously associated with Herb Simon's paper "On A Class Of Skew Distribution Functions". Krugman, at least, hates Simon's presentation, as he's said elsewhere, so "The Spatial Economy" recapitulates Simon's proof in a much simpler way. The trouble for Fujita, Krugman, and Venables is that their models don't lead to anything close to a power law in city sizes. The authors are perfectly straightforward about this rather large hole in their results. You have to think about methodology when you're reading a book like this. In particular: if the assumptions are extremely simplistic and wildly unrealistic, then how valuable are the conclusions that spring from those assumptions? The answer, I think, is: very valuable indeed, because the unrealistic bits don't alter the main thrust of the argument. The stability of equilibria probably wouldn't be changed if we got rid of the zero-profit condition, for instance. Likewise, if the wage ratio had to get really large before employees would move (call this "wage inertia"), that probably would only slow down the speed at which new cities grow; it likely wouldn't affect the existence or location of equilibria themselves. For a book with a few hundred equations, "The Spatial Economy" is remarkably readable. Anyone who's interested in economics, urban growth, international economics, or simple evolutionary-game-theory models will find this book indispensable and charming. 77 of 82 people found the following review helpful. A pretty good textbook with material not found elsewhere. By A Customer If you are considering buying this book, you will probably want to do so. If you are interested in applying regional analysis or the "new" spatial economics that they present, you will have a good starting point. The necessary background is probably be a year of Ph.D. level economic theory. Specific high points are the exposition of the Dixit-Stiglitz model of monopolistic competition and the evolution of urban systems. All new Ph.D. students will have a use for chapter 4, which is an easy-to-read discussion of monopolistic competition. Further, the book is rigorous enough to be used in academic work. I recommend it to anyone interested in regional or urban economics. It is useful to students and practicing economists alike. Its rigor makes it academic, but its ease of exposition makes it useful for those without extraordinary math backgrounds. Compared to similar books, you get a lot of value for the price. 0 of 4 people found the following review helpful. Spatial Economy book, not for Urban and Regional planners. By Meera This book provides introduction to spatial economics. But when you say spatial economics, you expect graphical explanations to the various theories which is

lacking here. This book might be good for economists but if you are urban planner and want to learn urban economics, this book is not for you.

Since 1990 there has been a renaissance of theoretical and empirical work on the spatial aspects of the economy -- that is, where economic activity occurs and why. Using new tools -- in particular, modeling techniques developed to analyze industrial organization, international trade, and economic growth -- this "new economic geography" has emerged as one of the most exciting areas of contemporary economics. The authors show how seemingly disparate models reflect a few basic themes, and in so doing they develop a common "grammar" for discussing a variety of issues. They show how a common approach that emphasizes the three-way interaction among increasing returns, transportation costs, and the movement of productive factors can be applied to a wide range of issues in urban, regional, and international economics. This book is the first to provide a sound and unified explanation of the existence of large economic agglomerations at various spatial scales.

"A superb volume on the new economics of geography by three pioneers in the field. This lucid, elegant book is a must for any graduate course in urban economics." —Edward L. Glaeser, Professor of Economics, Harvard University  
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Masahisa Fujita is Professor of Economics at the Kyoto Institute of Economic Research, Kyoto University.  
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