SYRACUSE UNIVERSITY
DEPARTMENT OF ECONOMICS

Economics 741, Urban Economics   Fall 2016
Professor Yinger

Final Exam

As a new junior faculty member, you are suddenly receiving many requests to review papers submitted to journals. You cannot meet all of these requests, but you also want to be a good citizen. So you have decided that you will review two of the five papers that have been sent to you and politely decline the invitation to review the others.

The five (fictional!) papers are described below. Select any two and provide the editor with a review. The review should summarize the main point of the paper, identify conceptual or empirical weaknesses, and suggest revisions that would make the paper better. You should also indicate whether these revisions are minor, major, or impossible.

1. Park Places: Renters' Valuation of Public Parks

In 2010, the City of Outwest built a huge park about six miles from its central business district (CBD). This park has walking trails and picnic areas and concert facilities and baseball diamonds and basketball courts and tennis courts, among other things. It has become very popular with the citizens of the greater Outwest area. This paper makes use of a data set on 2,302 houses that sold in the Outwest area in 2016. In addition to sales price, the data set includes 15 structural housing traits (such as house area and lot area), distance to the park, distance to the CBD, the city in which the house is located, and the school district in which the house is located. (Cities and school districts have different boundaries.) The objective of the paper is to determine the impact of the park on house values. To measure this impact, the paper regresses the log of sales price on distance to the park, distance to the CBD, all the structural housing traits (logged if they are continuous variables), city fixed effects and school district fixed effects. These regressions indicate that, all else equal, being one mile closer to the CBD raises a house's sales price by 2.1 percent and being one mile closer to the park raises a house's sales price by 0.8 percent. Both estimates are statistically significant. The author concludes that the park is clearly valued by homeowners in the Outwest area.

2. Neighborhood Housing Prices and Housing Demand

This study investigates the demand for housing based on a unique method for estimating the variation in housing prices across neighborhoods. This method makes use of two data sets from one large metropolitan area. One data set is based on all house sales in the area in 2012. It includes information on sales price, housing traits, and location. The second data set covers a

large sample of homeowners in the area in 2012. It includes information on each homeowner's address, income, net wealth, age, health, family composition, and house value (as estimated by the homeowner). In the first stage of the analysis, the actual house sales information is used to determine neighborhood housing prices. The log of sales price is regressed on an extensive set of housing traits (including as number of rooms, square footage, lot size, number of baths, whether the house has air conditioning, whether the house has an attached garage, whether the house has a fireplace) and census tract fixed effects. The coefficients of these fixed effects summarize the impact of all neighborhood traits on housing price; that is, they summarize what the winning bidders pay for the neighborhood dimension of housing in each tract. In the second stage of the analysis, owner estimated house value is regressed on the above household traits and neighborhood housing price as measured by the fixed the appropriate census tract fix (that is, the coefficient of the fixed effect for the census tract in which the homeowner lives). For each household in the second data set, in other words, the neighborhood housing price variable, P, is set equal to the coefficient of the fixed effect (from the first stage) of census tract in which the house is located. This regression starts with a log-linear (= constant elasticity) demand function for housing with housing services, H, on the left side and with income and P on the right side (along with various controls). Both sides are then multiplied by P so that PH is on the left side. If both sides are then divided by an interest rate, r, the left side becomes V =PH/r, and the coefficient of P on the right side is the price elasticity of demand for housing plus one. The controls in this regression include all the homeowner variables listed above. This procedure yields an estimated income elasticity of 0.5 and an estimated price elasticity of -0.75. Both estimates are highly significant statistically. This income elasticity is similar to the one found by other studies. However, the price elasticity is much higher (in absolute value) than previous studies, most of which have multi-MSA data and use construction costs as a measure of price. The author concludes that these results demonstrate the importance of accounting for variation in neighborhood price.

3. Immigrant Barriers: A Correspondence Audit Study of Housing Discrimination

For the past decade, the City of Uthica in upstate New York has been encouraging immigrants to move there. This policy has resulted in a significant increase in the immigrant population, mostly from Syria and other parts of the Middle East. At first, relations between immigrants and other residents of the city were cordial, but in recent years, tensions have arisen as some groups in the city have focused on the fact that many of these immigrants are Moslems and highlighted the (small!) possibility that some of the immigrants might be or might become terrorists. This paper presents the results for a 2016 correspondence audit study of the rental housing market in Uthica. This study collects information all the apartments listed for rent on Craigslist and then sends an e-mail in response to the ad. This e-mail has wording that is randomly selected from a set of similar e-mails, each of which inquires about the apartment's availability. Each e-mail has an associated g-mail account to receive a reply from the landlord. Each e-mail randomly selects either a typical Middle Eastern name or a typical name for white people in Uthica with European ancestors. Overall, the probability of a response from a landlord is 82 percent, and the probability of a reply is 3.5 percentage points lower for Middle Eastern names than for other names, a result that is highly significant statistically. The author also used information on apartment location combined with 2010 census tract data to determine the ethnic composition of the neighborhood

in which each posted apartment was located. A regression of probability of response on group membership and neighborhood ethnic composition found less discrimination in neighborhoods with a higher concentration of Middle Eastern residents. The paper concludes that landlords do discriminate and that this behavior arises because they don't want to upset their non-Middle-Eastern tenants.

4. Subways and Neighborhood Density

The City of Onthego built a subway system that opened in 2011. The voters in Onthego supported this subway because it took so long to get downtown by car from several dense city neighborhoods. A few of the lines extend out into the suburbs (which helped with the financing). This paper looks at the impact of this subway on residential density using data from 2005 and 2015. The paper has a measure of population and land area for each census tract in the Onthego area in these two years. Population density is the ratio of these two variables. The land area measure excludes lake and rivers. The data set also includes distance from the CBD, distance from the nearest subway stop (in 2015 only), and a series of zoning dummies. The author regresses the log of population density on distance from the CBD and the zoning dummies in 2005 and then conducts the same regression in 2015 with the addition of the variable for distance to the subway. All the coefficients are statistically significant. The author concludes that competition for access to the subway resulted in the re-configuration of apartments to increase density because people wanted to be near the subway. An alternative approach in the paper adds distance to the nearest future site of a subway station to the 2005 regression. This coefficient is smaller than the comparable coefficient in the 2015 regression, but is still statistically significant. The author argues that this result reflects anticipation of the new subway stops, although the subway design was not selected until 2006. Overall, the author concludes that the results in the paper can be used to predict the density changes that would occur in other cities from the construction of a subway.

5. Biased Fees? Are Black Borrowers Charged Higher Loan Fees?

This study makes use of a sample of 4,526 home-purchase loans to study whether blacks and whites are charged different fees when the loans are issued. The loans in this sample are all 30-year loans with a 3.5% annual interest rate and no points. The data set includes applicant, loan, and property characteristics at the time of loan approval and indicates whether the loans default (defined as 90 days delinquent) within the first four years. The data set covers several large lenders, each with several offices. Policies on fees vary across lenders and offices. One office might include a fee for a lawyer or for a title search, both another office might not. All fees appear in the data set. This study regresses the amount of loan fees on the race of the borrower. It finds that black borrowers pay an average of $273 more in fees than white borrowers, with significant variation across lenders and even their offices. This difference declines to $32 after controlling for applicant and property characteristics. (Because all the loans have the same characteristics other than fees, no loan characteristics are included.) This result is statistically significant but not, according to the author, economically significant. The author argues that regulators need not be concerned with discrimination in loan fees.