



RESEARCH RAP

Abstracts of
research papers
produced by the
economists at
the Philadelphia
Fed

You can find more Research Rap abstracts on our website at: www.philadelphiafed.org/econ/resrap/index.html. Or view our Working Papers at: www.philadelphiafed.org/econ/wps/index.html.

AGGLOMERATION ECONOMIES AND THE SPATIAL CONCENTRATION OF EMPLOYMENT

This paper seeks to quantify the contribution of agglomeration economies to the spatial concentration of U.S. employment. A spatial macroeconomic model with heterogeneous localities and agglomeration economies is developed and calibrated to U.S. data on the spatial distribution of employment. The model is used to answer the question: By how much would the spatial concentration of employment decline if agglomeration economies were counterfactually suppressed? For the most plausible calibration, the answer is about 48 percent. More generally, the general equilibrium contribution of agglomeration economies appears to be substantial, with empirically defensible calibrations yielding estimates between 40 and 60 percent.

Working Paper 06-20, "A Quantitative Assessment of the Role of Agglomeration Economies in the Spatial Concentration of U.S. Employment," Satyajit Chatterjee, Federal Reserve Bank of Philadelphia

HOW DO ENFORCEMENT COSTS AFFECT THE OWN VS. LEASE DECISION?

The authors develop a legal contract enforcement theory of the own versus lease decision. The allocation of ownership rights will minimize enforcement costs when the legal system is inefficient. In particular, when legal enforcement of contracts is costly, there will be a shift from arrangements that rely on such enforcement (such as a rental agreement) toward other forms that do not (such as direct ownership). The authors then test this prediction and show that costly enforcement of rental contracts hampers the development of the rental housing market in a cross-section of countries. They argue that this association is not the result of

reverse causation from a developed rental market to more investor-protective enforcement and is not driven by alternative institutional channels. The results provide supportive evidence on the importance of legal contract enforcement for market development and the optimal allocation of property rights.

Working Paper 06-21, "Owning Versus Leasing: Do Courts Matter?," Pablo Casas-Arce, Universitat Pompeu Fabra, and Albert Saiz, University of Pennsylvania, and Visiting Scholar, Federal Reserve Bank of Philadelphia

IMMIGRATION AND NEIGHBORHOOD DYNAMICS

What impact does immigration have on neighborhood dynamics? Within metropolitan areas, the authors find that housing values have grown relatively more slowly in neighborhoods of immigrant settlement. They propose three nonexclusive explanations: changes in housing quality, reverse causality, or the hypothesis that natives find immigrant neighbors relatively less attractive (native flight). To instrument for the actual number of new immigrants, the authors deploy a geographic diffusion model that predicts the number of new immigrants in a neighborhood using lagged densities of the foreign-born in surrounding neighborhoods. Subject to the validity of their instruments, the evidence is consistent with a causal interpretation of an impact from growing immigration density to native flight and relatively slower housing price appreciation. Further evidence indicates that these results may be driven more by the demand for residential segregation based on race and education than by foreignness per se.

Working Paper 06-22, "Immigration and the Neighborhood," Albert Saiz, University of Pennsylvania, and Visiting Scholar, Federal Reserve Bank of Philadelphia, and Susan Wachter, University of Pennsylvania