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Daniel Murphy

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Home Production, Expenditure, and Economic Geography*

Daniel Murphy

University of Virginia Darden School of Business

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Abstract: This paper proposes a new microfoundation for the benefits of urban density. Market production of services is efficient because customers effectively share land and other factors of production, leaving them idle for less time. The paper develops a theory in which market-based sharing causes residents of dense areas to purchase services on the market that their suburban counterparts produce at home. The model predicts that residents of dense areas spend more on local services, home produce less, work more, and pay higher land prices - conditional on residents' productivity and proximity to work. The paper presents evidence that these predictions are consistent with the data.

Keywords: expenditure, home production, urban density, agglomeration, regional labor supply.

JEL: D13, J22, R12, R13, R23

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Contact: University of Virginia Darden School of Business, Charlottesville, VA 22903. E-mail: murphyd@darden.virginia.edu.

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