Public Good Inputs, Housing Quality, and Locational Stratification

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Our paper contributes to the literature on economic segregation by showing that heterogeneity in preferences for housing quality as a result of the location-specific provision of public goods can generate locational stratification. We develop a general equilibrium framework of endogenous sorting in which agents are allowed to differ in their incomes, opportunity costs of commuting, and preferences for housing quality. Housing quality is endogenously determined by location-specific public infrastructure that is financed by property taxes. We characterize the configuration of the competitive spatial equilibrium. We find that complete integration arises only under a set of parameters of measure zero such that the ratio of the opportunity costs of commuting facing different types of agents is in a specific homothetic relation to the ratio of the marginal valuations of housing quality. By contrast, locational stratification is generic. When the difference between agents' commuting costs is sufficiently large (resp. small) compared to the difference in their respective preferences for housing quality, the equilibrium is segregated with all rich residing in the central city (resp. suburb) as observed in Asia and Europe (resp. U.S. metropolitan areas).

**Keywords:** economic segregation, endogenous sorting, housing quality, competitive spatial equilibrium

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