The invention of agriculture, about 10,000 years ago, enabled people to settle in one place. Ever since this milestone in human history, cities have played a key role in economic development. The spatial concentration of people facilitated the emergence of complex economic phenomena, such as the division of labor, trade, entrepreneurship and the rapid exchange of ideas. It is the main objective of this dissertation to contribute to our understanding of the functioning of cities. To this end, the dissertation employs detailed panel data on individual wages and cross-sectional data on house prices in the Netherlands. To account for endogeneity issues, I use a wide range of tools such as a quasi-experiment, individual fixed effects, and historical and geological instruments. The main questions that are addressed are the following. What is the spatial extent of agglomeration economies? Why do wages grow faster in urban areas? What is the scope of the external return to higher education? How does accessibility influence house prices? The dissertation ends by drawing implications for public policy.

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