

Department of Economics

We are currently ranked as the best economics department in the world. Our goal is to make sure we stay on top by retaining and expanding our outstanding research faculty and by continuing to make the kind of investments in our teaching programs that have allowed us to attract the very best graduate students and have inspired our undergraduate students.

Highlights of the Year

The Economics Department's distinguished alumni regularly participate in the highest levels of government. In May 2003, Gregory Mankiw (PhD 1984) became Chairman of the President's Council of Economic Advisors and in October 2003, Kristin Forbes (PhD 1998) joined him as the Council's youngest member ever. Earlier this year, Mark McClellan (PhD 1993) was chosen to head the Centers for Medicare and Medicaid Services. He had most recently been Commissioner of the Food and Drug Administration and before that a member of the Council of Economic Advisors.

In 2003, the American Economic Association awarded its biennial John Bates Clark Medal, given to an outstanding economist under the age of 40, to Steve Levitt (PhD 1994), currently a member of faculty of the University of Chicago. It was the third consecutive time that one of our graduates received this coveted award.

A number of our own faculty received major honors and awards. Professor Daron Acemoglu was named the inaugural recipient of the Sherwin Rosen Prize for Outstanding Contributions in the Field of Labor Economics by the Society of Labor Economists. Professor Abhijit Banerjee was elected fellow of the American Academy of Arts and Sciences. The European Economic Association awarded annual visiting professor Mathias Dewatripont the prestigious Yrjö Jahnsson Award in Economics. Institute Professor Peter Diamond won this year's TIAA-CREF Paul A. Samuelson Award for Outstanding Scholarly Writing on Lifelong Financial Security for his book *Taxation, Incomplete Markets, and Social Security* (MIT Press, 2003). Professor James Poterba was named Distinguished CES Fellow for 2003 by the Center for Economic Studies, in Munich, where he gave the accompanying Munich Lectures in Economics. Professor Nancy Lin Rose was named a 2004 fellow of the John Simon Guggenheim Memorial Foundation.

Our faculty continued to hold important responsibilities in various economics associations. Among them, Professor Joshua Angrist was on the Society of Labor Economists committee on awards and prizes, Professor Ricardo Caballero was a member of the National Science Foundation economics panel, Professor Olivier Blanchard was on the council of the Econometric Society, and Professor Diamond was president of the American Economic Association in 2003. Professor Poterba was a member of the American Economic Association's nominating and honors and awards committees and the editor of the *Journal of Public Economics*. Professor Bengt Holmström was on the executive committee for the Center for Economic Policy Research and the

executive board of the European Corporate Governance Institute. Professor Whitney Newey is a co-editor of *Econometrica*, associate professor Esther Duflo is a co-editor of the *Journal of Development Economics* and Professor Jonathan Gruber is a co-editor of the *Journal of Public Economics*.

This was a very good year for our graduate students in the job market. Three became assistant professors in top-ten economics departments and three in top-ten business schools. Out of a total of 21, 17 accepted academic positions, 2 accepted government positions, and 2 accepted positions in the private sector. Next year's entering class of 23 students is very strong and includes 12 international students (52%) and 7 women (30%).

Our undergraduate enrollment decreased slightly (6%) this year. There were 108 undergraduate majors in economics (20 of whom are double majors), 154 undergraduate minors, and 322 concentrations completed in economics. Forty-five students received the SB in economics in 2003–2004.

The department was very fortunate to receive two new endowed faculty chairs this year. Dr. C.C. Chen (SB 1963, SM 1965, PhD 1967) donated the funds for a chair in memory of Emeritus Professor Charles P. Kindleberger, who died last summer. Professor Acemoglu became the first Charles P. Kindleberger professor of applied economics. Through generous gifts from a number of alumni, friends, and faculty, a career development chair was established in memory of Professor Rudi Dornbusch, who died in the summer of 2002. Assistant professor Xavier Gabaix became the first Rudi Dornbusch career development assistant professor of economics.

Two other department chairs changed hands as of July 1, 2004. Professor Newey was appointed the Jane Berkowitz Carlton and Dennis William Carlton professor of economics when the current chair holder, Professor Franklin Fisher, retired after 47 years in the department. Assistant professor Victor Chernozhukov was appointed the Castle Krob career development assistant professor of economics. The chair was previously held by Professor Duflo.

Professors Banerjee and Duflo and associate professor Sendhil Mullainathan started the Poverty Action Lab (<http://www.povertyactionlab.com/>), a major new research center, this year. Its mission is to develop and apply novel scientific methods to assess and quantify the impact of government and privately funded development aid programs. The lab has already received much favorable attention from both students and the press, thanks to its innovative, scholarly approach in the battle against global poverty.

Future Plans

For the past 10 years, the department has focused on internal growth. We have hired the best junior faculty, offered them an environment in which they can grow, and awarded them tenure as soon as it has been warranted. This strategy has been extremely successful. There is little doubt that the department has the best young faculty anywhere, as evidenced by repeated raids on us. So far we have been able to stave off the attacks well. Today, our talented group of young tenured professors forms the intellectual core of the department, complemented by an excellent junior faculty (about

30% of the overall count) that adds vibrancy and intellectual excitement. The mood is upbeat and the expectations for the coming year are high.

Competitive pressures dictate that we increase the size of our department and, for the second year in a row, the administration has responded by adding two new junior slots. Because of MIT's financial situation, there has not been a corresponding expansion of our budget, but our austerity measures, accumulated savings, and increased fund-raising efforts have nevertheless allowed us to be active both in the junior and senior faculty markets. In the coming years, the hiring of senior faculty—where we have not been successful in the past—will receive special attention. The competitiveness of our offers as well as the areas we focus on need to be reviewed. In future recruiting efforts, it is likely that we will want to play more to our strengths than we have in the past.

Personnel

This was Professor Holmström's first year as head of the department.

Professors Duflo and Mullainathan were promoted to full professor and assistant professors Sergei Izmalkov and Iván Werning were reappointed effective July 1, 2004.

Guido Lorenzoni (PhD 2001) will join the faculty as an assistant professor of economics as of July 1, 2004. He has spent the past three years as an assistant professor at Princeton University. His major fields are macroeconomics and international economics.

Mikhail Golosov will join the faculty as an assistant professor as of July 1, 2004. Mikhail received his PhD from the University of Minnesota. His research interests are in macroeconomics and public finance.

Professor Mullainathan will resign his position effective September 1, 2004 to assume a position at Harvard University.

Professor Fisher, the Jane Berkowitz Carlton and Dennis William Carlton professor of economics, retired effective July 1, 2004. Professor Newey became the new chair.

There were fifteen visiting faculty for all or part of AY2004. Annual visiting professor Jean Tirole taught a topics course in industrial organization. Visiting professor Dewatripont taught microtheory. Annual visiting professor Ernst Fehr taught experimental economics. Visiting professor Francesco Giavazzi taught international economics. Visiting professor Guy Debelle taught international trade. Visiting professor Drew Fudenberg taught microeconomic theory and game theory. Visiting professor Andrew Rodriguez-Clare taught international economics. Visiting assistant professor Aviv Nevo taught industrial organization. Visiting associate professor Simon Gilchrist taught macroeconomics. Visiting professor Ephraim Kleiman taught a course in economics of the Middle East. Visiting professor Victor Lavy taught economic research and communication and theories of economic development. Visiting professor Patrick Legros taught contract theory. Visiting professor Gilles Saint Paul taught macroeconomics. Visiting associate professor Hans-Joachim Voth taught economic

history. Visiting assistant professor Tiemen Woutersen taught econometrics. Instructor Ebonya Washington taught statistics.

The department has four women on the faculty; three have tenure and one is a senior lecturer. We have no minorities on the faculty. All search committees are instructed to identify outstanding women and minority candidates as part of their search process. As part of the regular recruitment process for junior faculty, the department solicited/received 245 CVs. Thirty-two candidates (including four women and one minority) were selected for interviews. We made two offers this year, both to men. Professor Holmström appointed a special hiring committee this past year to search for senior women economists. The committee recommended that the department make an offer to associate professor Marianne Bertrand of the University of Chicago. Professor Bertrand did not accept the department's offer due to dual-career concerns.

Honors and Awards

In addition to the highlights noted above, department faculty members participated in a variety of scholarly meetings and were recognized by a number of organizations .

Professor Acemoglu received the T. W. Schultz Prize from the University of Chicago. He gave the Marshall Lecture at the 18th Annual Congress of the European Economic Association. He also gave the AstraZeneca lecture in Stockholm and the Lionel Robbins Memorial Lecture at the London School of Economics. He gave keynote addresses at the Midwest Macro and Society for Economic Dynamics conferences.

Associate Professor David Autor was the keynote speaker at the 4th ZEW Conference on the Economics of Information and Communication Technologies. He also organized the meeting "The Link Between Income and Consumption Inequality" at the Fundación Ramón Areces, in Madrid, Spain on March 26–27, 2004.

Professor Banerjee gave the R.C. Dutt Lecture at the Centre for Studies in Social Sciences, in Calcutta, India, as well as the 17th Kuznets Memorial Lecture, at Yale University.

Professor Blanchard received a Doctorate, Honoris Causa from the Université du Québec. He was a member of the nominating committee and North American council of the Econometric Society. He is on Conseil d'analyse économique auprès du Premier ministre and the Commission de la Nation in Paris, and the economic advisory panel of the Federal Reserve Bank of New York. He is an associate editor of the *Journal of Economic Perspectives* and he is on the advisory board for the *Journal of the European Economic Association*. He gave the Institut d'Économie Industrielle Lecture in Toulouse, France; the inaugural lecture in economics at Universitat Pompeu Fabra, in Barcelona, Spain; and the 7th Pedro Barrié de la Maza lecture in economics, at the Fundación Pedro Barrié de la Maza, in Vigo, Spain.

Professor Caballero gave both the Mitsui-MIRI Lecture in Tokyo and the Bill Phillips Lecture to the 2003 Australasian Meeting of the Econometric Society, in Sydney.

Professor Dora Costa was a fellow at the Center for Advanced Study in Behavioral and Social Sciences for 2003–2004.

Professor Diamond gave the Killian Lecture at MIT.

Professor Duflo was named a faculty research associate of the National Bureau of Economic Research (NBER). She is an associate editor of the *Journal of Economic Perspectives*.

Professor Glenn Ellison was a member of the Institute for Advanced Study for 2003–2004.

Senior lecturer Sara Fisher Ellison was the recipient of a fellowship from the Institute for Advanced Study for 2003–2004.

Professor Gabaix was co-awarded a grant from the National Institutes of Health titled “Psychological Factors in Economic Lifecycle Decisions.”

Associate professor Michael Greenstone is an associate editor of the *Journal of Business and Economics Statistics*. He is a member of the US Environmental Protection Agency Science Advisory Board’s Environmental Economics Advisory Committee. He was a co-organizer of the NBER Environmental Economics Summer Institute.

Professor Gruber was the recipient of the MIT Undergraduate Economics Association Teaching Award for 2003–2004.

Professor Jeffrey Harris was a member of the Institute of Medicine Committee on Reducing Tobacco Use.

Professor Jerry Hausman was the Centre for Microdata Methods and Practice international fellow at the University College London.

Professor Holmström was the keynote speaker at the 2nd Humboldt Forum on Corporate Governance, Berlin, as well as at the 30th Annual Conference of the European Association for Research in Industrial Economics, in Helsinki, August 2003. He received the Europlace Institute of Finance Award for best paper in finance for “LAPM—A Liquidity-based Asset Pricing Theory,” written with Jean Tirole.

Professor Paul Joskow was the keynote speaker at the Industrial Organization Society’s International Industrial Organization Conference, in Chicago, in April 2004. He was awarded the Outstanding Contributions to the Profession Award from the International Association for Energy Economics.

Professor Newey is the program co-chair of the 2005 World Congress of the Econometric Society.

Professor Poterba is on the program committee of the American Finance Association. He is chair of the membership committee for the American Academy of Arts and Sciences, Class III:2 (Economics), and chair of the Curriculum Advisory Board for the Investment Management Consultant's Association. He is a member of the review panel for the National Institutes of Health Director's Pioneer Awards.

Professor Rose received the MIT Undergraduate Association Faculty Teaching Award in 2004.

Professor Werning was given the Graduate Student Council Department Teaching Award for Course 14.

Assistant professor Muhamet Yildiz received a Cowles Foundation fellowship for 2003–2004. He is an associate editor for the *Review of Economic Design*.

Research Achievements

Faculty research includes:

- Professor Acemoglu's paper "Women, War, and Wages: The Effect of Female Labor Supply on the Wage Structure at Midcentury," written with David Autor and David Lyle, was published in the *Journal of Political Economy*.
- Assistant professor George-Marios Angeletos' paper "Transparency of Information and Coordination in Economies with Investment Complementarities," written with Alessandro Pavan, was published in the *American Economic Review: Papers and Proceedings*.
- Professor Angrist's paper "Treatment Effect Heterogeneity in Theory and Practice," The Royal Economic Society Sargan Lecture, was published in the *Economic Journal*.
- Professor Autor's article "The Skill Content of Recent Technological Change: An Empirical Exploration," written with F. Levy and R. Murnane, was published in the *Quarterly Journal of Economics*.
- Professor Banerjee's paper "Wealth, Health, and Health Services in Rural Rajasthan," written with Angus Deaton and Esther Duflo, is forthcoming in the *American Economic Review: Papers and Proceedings*.
- Professor Blanchard's paper "The Economic Future of Europe" is forthcoming in the *Journal of Economic Perspectives*.
- Professor Caballero's paper "The Cost of Recessions Revisited: A Reverse-Liquidationist View," written with M. Hammour, is forthcoming in the *Review of Economic Studies*.
- Professor Chernozhukov's "An MCMC Approach to Classical Estimation," written with H. Hong, was published in the *Journal of Econometrics*.

- Professor Costa’s paper “Changes in the Value of Life, 1940–1980,” written with Matthew E. Kahn, is forthcoming in the *Journal of Risk and Uncertainty*.
- Professor Duflo’s paper “How Much Should We Trust Difference-in-Differences Estimates?,” written with Marianne Bertrand and Sendhil Mullainathan, was published in the *Quarterly Journal of Economics*.
- Professor Ellison’s paper “Knife-Edge or Plateau: When Do Market Models Tip?,” written with Drew Fudenberg, was published in *Quarterly Journal of Economics*.
- Professor Fisher’s “Comments” on the article “Cambridge Capital Controversies,” was published in the *Journal of Economic Perspectives*.
- Professor Gabaix’s paper “On the Origin of Power-Law Fluctuations in Stock Prices,” written with V. Plerou, P. Gopikrishnan, and H. Eugene Stanley, appeared in *Quantitative Finance*.
- Professor Greenstone’s paper “Did the Clean Air Act Cause the Remarkable Decline in Sulfur Dioxide Concentrations?” was published in the *Journal of Environmental Economics and Management*.
- Professor Gruber’s “Does the Social Security Earnings Test Affect Labor Supply and Benefits Receipt,” written with Peter Orszag, was published in the *National Tax Journal*.
- Professor Harris’ “Cigarette Tar Yields in Relation to Mortality from Lung Cancer in the Cancer Prevention Study II Prospective Cohort, 1982–8,” written with M. Thun, A. Mondul, and E. Calle, was published in the *British Medical Journal*.
- Professor Hausman’s paper “Response Error in a transformation model with an application to earnings-equation estimation,” written with J. Abrevaya, is forthcoming in *The Econometrics Journal*.
- Professor Joskow’s chapter “Vertical Integration” is forthcoming in *Handbook of New Institutional Economics* (Springer).
- Professor Newey’s paper “Jackknife and Analytical Bias Reduction for Nonlinear Panel Models,” written with J. Hahn, was published in *Econometrica*.
- Professor Michael Piore’s chapter “Economy, Society, and Worker Representation in Corporate Governance” was published in *Corporate Governance and Firm Organization* (Oxford University Press, 2004).
- Professor Poterba published his paper “Taxation and Corporate Payout Policy” in the *American Economic Review*.
- Professor Peter Temin’s article “The Labor Market of the Early Roman Empire” was published in *The Journal of Interdisciplinary History*.

—Professor Werning’s paper “The Equilibrium Distribution of Income and the Market for Status,” written with Gary S. Becker and Kevin M. Murphy, is forthcoming in the *Journal of Political Economy*.

—Professor William C. Wheaton published his article “Commuting, Congestion, and Employment Dispersal, in Cities with *Mixed Land Use*” in the *Journal of Urban Economics*.

—Professor Yildiz’s “Waiting to Persuade” was published in the *Quarterly Journal of Economics*.

Bengt Holmström
Department Head
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More information about the Department of Economics can be found on the web at <http://econ-www.mit.edu/>.