

Department of Economics

The graduate program of the MIT Department of Economics has been rated the best in the United States for decades—most recently, in the spring 2005 *U.S. News & World Report* rankings. Our goal is to 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 allow us to attract the very best graduate students and inspire our undergraduate students to learn economics.

Highlights of the Year

The year had many high points. The following three stand out.

Professor Daron Acemoglu, the Charles P. Kindleberger professor of applied economics, was named the winner of the 2005 John Bates Clark Medal from the American Economic Association. This award, considered the most prestigious award in economics after the Nobel Prize, is presented every other year to an economist under the age of 40 who has made outstanding contributions to economic science. Professor Acemoglu's research in labor economics, political economy, and economic growth featured prominently in his award citation. He has been on the MIT faculty since receiving his PhD from the London School of Economics in 1993. He is the fifth member of the MIT Economics faculty to receive the Clark Medal while teaching at MIT. The earlier winners are Professors Paul Samuelson, Robert Solow, Jerry Hausman, and Paul Krugman. Before 2005, each of the previous three times this coveted award has been given, it has gone to an MIT Economics Department PhD.

Professor Esther Duflo was honored as the Best Young French Economist by *Le Monde's* Cercle des Économistes. The award recognizes an outstanding French economist, and like the Clark Medal, it is limited to candidates under the age of 40. Professor Duflo's award cited her research in development economics and poverty alleviation, particularly her creative use of randomized trials as a strategy for evaluating the effectiveness of antipoverty programs. She and others associated with the MIT Poverty Action Lab have been in the forefront of the broad campaign to develop measures of the impact of health, education, and other welfare programs in developing countries.

On May 15, we celebrated emeritus professor Paul Samuelson's 90th birthday together with his family and some of his former students and colleagues. The celebration began with a symposium addressing the relevance of current theoretical research in macroeconomics, the efficiency of the stock market, and the economic challenges raised by the US current account deficit. The topics all reflect important but unresolved issues in economic policy, economic theory, or economic science that Professor Samuelson wanted to discuss. The symposium was followed by a dinner that included remarks from MIT's president, relatives, and colleagues. Mitsui professor James Poterba was the master of ceremonies. The birthday celebration offered an opportunity to reminisce about the six-decade history of the Economics Department's PhD program and its remarkable success during that period. MIT can claim 12 Nobel laureates in economics

through its students and current or past faculty. Ten of these winners had Economics Department ties.

A number of our faculty received prizes and awards. Ford international professor Abhijit Banerjee was elected a fellow of the American Academy of Arts and Sciences. Assistant professor Victor Chernozhukov was named an Alfred P. Sloan Foundation research fellow for 2005–2007. Associate professor Michael Greenstone received the Kenneth J. Arrow Award for the best paper in the field of health economics. Professor Jonathan Gruber was elected to the Institute of Medicine. Paul A. Samuelson professor Bengt Holmström received an honorary degree from the Swedish School of Economics and Business Administration in Helsinki. Professor Poterba and Dr. Amy Finkelstein received a certificate of merit in the Paul Samuelson Lifetime Financial Security contest, sponsored by TIAA–CREF. Professor Nancy Rose was a Guggenheim Foundation fellow during 2004–2005.

MIT faculty members and alumni continue to play an important role in the economics profession. Professor Banerjee and Class of 1941 professor Olivier Blanchard were elected to the Council of the Econometric Society. Professor Whitney Newey was named coeditor of *Econometrica* and served as one of the program cochairs for the 2005 World Congress of the Econometric Society. Professor Rose joined the board of the American Economic Association's Committee on the Status of Women in Economics. The president-elect of the American Economics Association, Professor George Akerlof from Berkeley, along with the newly elected vice presidents, Professor Robert Hall from Stanford and Professor Robert Shiller from Yale, are all MIT graduates.

Our alumni and faculty hold important positions in the policy arena as well. Stanley Fischer, a former student, faculty member, and longtime member of the Visiting Committee, became the new governor of the Bank of Israel. In Washington, DC, Greg Mankiw stepped down as chairman of the President's Council of Economic Advisers (CEA) in early 2005. He was succeeded by fellow MIT graduate Ben Bernanke, a longtime professor at Princeton and more recently a member of the Federal Reserve Board. Associate professor Kristin Forbes, who received her MIT PhD in 1998 and was the youngest CEA member ever, left Washington, DC, this year to return to teaching at the MIT Sloan School of Management. Professor Poterba is currently serving on the President's Advisory Panel on Federal Tax Reform, a nine-person panel charged with recommending reforms to the federal individual and corporate income tax system. Institute Professor Peter Diamond has been visibly involved in the ongoing public debate of Social Security System reform.

In February, the Economics Visiting Committee, chaired by Denis Bovin, vice chairman of Bear Stearns, made its biannual visit to the department. Three new members had joined the committee since the previous visit: Mr. Larry Fish, chairman and CEO of Citizen Bank, Dr. Gary Loveman, chairman and CEO of Harrah's Entertainment Inc., and Professor Judith Chevalier of Yale University.

Future Plans

Overall, the department is in excellent shape, with a good balance across fields and significant depth in several key areas. We have a very talented, exciting young faculty on which to build our future. Our plan is to grow the size of the department at a measured pace without losing its unique character. This year we increased our faculty count by two, and the total is now 33. We plan to be active mainly in the junior market, but also selectively in the senior market. Despite MIT's austerity program, our financial situation has remained stable, helped by the administration's strong commitment to economics and our exceptionally generous alumni. We plan to step up our fund-raising efforts over the next few years with the support of our visiting committee.

As our faculty and research staff have expanded, we have become increasingly constrained by our limited physical space. The Poverty Action Lab has gotten off to a very successful start, and its ambitions to grow have added urgency to the need for additional space. One of the top priorities this coming year will be to move the lab to new quarters outside the department. This would free up space for regular faculty and visitors we would like to welcome to the department.

MIT's Task Force on the Undergraduate Educational Commons will prompt a careful review of our undergraduate offerings. Our undergraduate class enrollments have increased, while the number of undergraduates taking economics as a major and minor has decreased somewhat in the recent past. Our goal is to grow these numbers substantially to respond to the competitive changes that are taking place in the market for higher education. We intend to do this by expanding our elective offerings and, pending the outcome of the task force report, by creating one or two new courses with broad appeal.

Personnel

The size of the nonvisiting faculty was 31 during the past academic year and will increase to 33 with the new hires we have made.

Associate professor David Autor and assistant professor Chernozhukov were approved for promotion to associate professor with tenure. Assistant professor Xavier Gabaix will be promoted to associate professor, and assistant professor Haluk Ergin was reappointed. Assistant professor Muhamet Yildiz became the new holder of the Pentti J.K. Kouri career development chair. All appointments will be effective July 1, 2005.

The department hired two new assistant professors this year: Amy Finkelstein and Stephen Ryan. Amy received her PhD from MIT in 2001. During the last four years, she has been a postdoctoral fellow at the National Bureau of Economic Research and a junior fellow at Harvard's Society of Fellows. She carries out research in public economics and health economics, with a particular focus on the economic effects of social insurance programs. Amy will be teaching graduate public economics and an undergraduate course on statistical methods. Stephen Ryan, who received his PhD from Duke University this year, works on industrial organization and applied econometrics. His dissertation examined the impact of environmental regulations on entry and exit

decisions by firms in the cement industry. Stephen will be teaching both graduate and undergraduate industrial organization.

There were eight visiting faculty members for all or part of AY2005. Annual visiting professor Ernst Fehr taught experimental economics. Annual visiting professor Jean Tirole taught a topics course in corporate finance. Visiting professor Mathias Dewatripont taught microeconomic theory. Visiting professor Francesco Giavazzi taught international economics. Visiting assistant professors Michael Jansson and Mark Aguiar taught time series econometrics and international economics, respectively. Visiting associate professor Tasneem Chipty taught industrial organization and applied microeconomics. Visiting assistant professor Philip Oreopoulos taught labor economics.

Counting this year's new hires, the department will have five women on the faculty next year; three are tenured professors, one is an assistant professor, and one is a senior lecturer. We have no minority representatives 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 295 CVs. Thirty-nine candidates (including 11 women) were selected for interviews. We made three offers this year, two to men and one to Amy Finkelstein.

Honors and Awards

The department faculty members participated in a variety of scholarly meetings and were recognized by a number of organizations.

Professor Acemoglu received the John Bates Clark Medal for the top economist, as mentioned earlier. He was the keynote speaker for the Midwest Macroeconomics Conference, the Association for Labor Economists Conference, and the Society of Economic Dynamics Conference. He gave the Dunaway Lecture at Michigan State University and the McKay Lecture at the University of Pittsburgh.

Assistant professor George-Marios Angeletos was one of the organizers of the 2005 Minnesota Workshop in Macroeconomics.

Professor Joshua D. Angrist was a member of the Econometric Society Program Committee and the Center for Economic Research and Graduate Education visiting committee.

Professor Autor was named a member of the board of editors of the *Journal of Economic Literature*. He was the recipient of the MIT Undergraduate Economics Association Teaching Award for academic year 2004–2005, and he received an award from the J. H. and E. V. Wade Fund.

Professor Banerjee was elected to the Council of the Econometric Society. He became a fellow of the American Academy of Arts and Sciences.

Professor Blanchard was reelected to serve on the Econometric Society Council.

Ford international professor Ricardo Caballero became a member of the editorial board of MIT Press in 2005.

Professor Chernozhukov was named an Alfred P. Sloan Foundation research fellow, 2005–2007. He received the Biannual Zellner Award in 2005 and became an eligible fellow of the Center for Advanced Studies in the Behavioral Sciences.

Professor Duflo was named the Best Young French Economics by *Le Monde's* Cercle des Économistes in 2005. She received the Bronze Medal from the Centre National de la Recherche Scientifique.

Professor Gabaix was named a faculty research fellow of the National Bureau for Economic Research (NBER) Asset Pricing group. He was the co-organizer of two large econophysics conferences: Volatility in Financial Markets in the Netherlands and Noise and Fluctuations in Econophysics and Finance in Texas.

Assistant professor Mikhail Golosov became a research fellow of the NBER in the Public Economics group.

Professor Greenstone received the 12th Annual Kenneth J. Arrow Award for the best article in the field of health economics in 2004. He won the Albert Rees Prize for Best Dissertation in Labor Economics from Princeton in 2005. He became an eligible fellow at the Center for Advanced Study in the Behavioral Sciences.

Professor Gruber was elected to the Institute of Medicine.

John and Jennie S. MacDonald professor Jerry Hausman was named an international fellow of the Centre for Microdata Methods and Practice at the University College London.

Professor Holmström received an honorary doctorate from the Swedish School of Economics and Business Administration in Helsinki and was elected a fellow of the European Economic Association. He gave the Joseph Schumpeter Lecture at the European Economic Association meeting in Madrid and the Frank Hahn Lecture at the Royal Economic Society meeting in Nottingham, UK.

Elizabeth and James Killian professor Paul Joskow is on the National Commission on Energy Policy and is also on the editorial boards of the following journals: the *Electricity Journal*; the *Journal of Law, Economics, and Organization*; *Utilities Policy*; and the *Journal of Managerial and Decision Economics*.

Professor Newey was named a coeditor of *Econometrica*.

Professor Michael J. Piore was elected a member of the executive committee for the Society for the Advancement of Socio-Economics.

Professor Poterba is the 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 Honors and Awards Committee of the American Economic Association, 2003–2006. He is a member of the President's Advisory Panel on Federal Tax Reform. He received the EFACT Honorary Award from the undergraduate and graduate students in Economics at Tilburg University. He is an institute fellow at the TIAA–CREF Institute.

Professor Rose received a Guggenheim Foundation fellowship for 2004–2005. She is on the Committee on the Status of Women in Economics Profession Board of the American Economic Association.

Professor Yildiz is the associate editor for the *Review of Economic Design*, and was the coeditor of a special issue.

Research Achievements

The following selection of publications during the academic year illustrates the scope of the department's research activities.

Professor Acemoglu's article "Market Size in Innovation: Theory and Evidence from the Pharmaceutical Industry," with Joshua Linn, was published in the *Quarterly Journal of Economics*. Professor Angrist's article "Does School Integration Generate Peer Effects? Evidence from Boston's Metco Program," with Kevin Lang, was published in the *American Economic Review*. Professor Autor's article "Women, War and Wages: The Impact of Female Labor Supply on the Wage Structure at Mid-Century," with Daron Acemoglu and David Lyle, was published in the *Journal of Political Economy*.

Professor Banerjee's article "Top Indian Incomes, 1922–2000," with Thomas Piketty, was published in the *World Bank Economic Review*. Professor Blanchard's article "The US Current Account and the Dollar," is forthcoming in the *Brookings Articles on Economic Activity*. Professor Caballero's article "The Three Strikes and You're Out: Reply to Cooper and Willis," written with Eduardo M. R. A. Engel, was published in the *American Economic Review*. Professor Chernozhukov's article "Likelihood Estimation and Inference in a Class of Non-Regular Econometric Models," written with H. Hong, was published in *Econometrica*. Professor Dora Costa's article "Race and Pregnancy Outcomes in the Twentieth Century: A Long-Term Comparison," was published in the *Journal of Economic History*.

Professor Duflo's article "Women as Policy Makers: Evidence from a Randomized Policy Experiment in India," written with Raghavendra Chattopadhyay, was published in *Econometrica*. Professor Glenn Ellison's article "A Model of Add-On Pricing," was published in the *Quarterly Journal of Economics*. Senior lecturer Sara Fisher Ellison's article "Industrial Organization: Lessons about Markets from the Internet," written with Glenn Ellison, was published in the *Journal of Economic Perspectives*. Professor Ergin's article "Games of School Choice under the Boston Mechanism," written with Tayfun Somez, is forthcoming in the *Journal of Public Economics*.

Professor Greenstone's article "Does Air Quality Matter? Evidence from the Housing Market," written with Kenneth Chay, was published in the *Journal of Political Economy*. Professor Gruber's article "Is Making Divorce Easier Bad for Children?: The Long Run Implications of Unilateral Divorce," was published in the *Journal of Labor Economics*. Professor Hausman's article "Asymptotic Properties of the Hahn-Hausman Test for Weak Instruments," with J. Stock and M. Yogo, was published in *Economic Letters*. Professor Joskow's article "Regulation and Deregulation After 25 Years: Lessons for Research," was published in *Review of Industrial Organization*. Professor Newey's article "Instrumental Variable Identification and Estimation of Nonseparable Models," with V. Chernozhukov and G. Imbens, is forthcoming in the *Journal of Econometrics*. Professor Piore's article "Normas laborales de México en la economía global," was published in the *Comercio Exterior Journal*.

Professor Poterba's article "Copycat Funds: Information Disclosure Regulation and the Returns to Active Management in the Mutual Fund Industry," with M. M. Frank, D. Shackelford, and J. Shoven, was published in the *Journal of Law and Economics*. Professor Rose's article "Airline Deregulation," is forthcoming in L. Blume and S. Durlauf, eds., *The New Palgrave Dictionary of Economics*. Elisha Gray II professor Peter Temin's article "Riding the South Sea Bubble," with J. Voth, was published in the *American Economic Review*. Professor William C. Wheaton's article "Ski Resort Real Estate: Does Supply Prevent Appreciation?" is forthcoming in the *Journal of Real Estate Research*. Professor Yildiz's article "The Core is Manipulable via Segmentation," was published in the *Journal of Economic Theory*.

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More information about the Department of Economics can be found online at <http://econ-www.mit.edu/>.