

## Department of Economics

The graduate program of the MIT Department of Economics has been ranked the best in the United States for decades, most recently in spring 2005 by *U.S. News & World Report*. This is the result of long-term investments in the education and advising of our graduate students by a first-rate faculty that is collegial, respects diversity of opinion, and is committed to a scientifically rigorous learning and research environment. In our undergraduate program, we offer an educational experience that takes advantage of the exceptional technical skills of the MIT undergraduate student body and the unique complementarities that exist among economics, engineering, and science at MIT.

### Highlights of the Year

The department received an exceptional gift, the largest in its history, from MIT alumnus Mohammed Jameel (SB 1978, civil and environmental engineering). The gift endowed the Abdul Latif Jameel Poverty Action Lab (J-PAL), the Abdul Latif Jameel professorship of poverty alleviation and development economics, and two graduate fellowships. During the year, J-PAL hosted visits from Muhammad Yunus, the Bangladeshi economist who pioneered the microcredit movement; Turki Al-Faisal, the Saudi Arabian ambassador to the United States; and Bono, *Time* magazine's 2005 Person of the Year, who was accompanied by staff from his advocacy group, Debt, AIDS, Trade, Africa (DATA). Each occasion provided an important platform for disseminating J-PAL's research results beyond the academic community and generated significant publicity for the lab's work. J-PAL has been described in stories in both *Time* and *Fortune*.

Ben Bernanke (PhD 1979), who was sworn in as the 14th chairman of the Federal Reserve Board in February 2006, delivered the MIT Commencement address in June to just over 2,000 new graduates and their families. His remarks emphasized the important role that economic policy has played in supporting the commercialization of scientific and engineering advances. He noted that economic research of the type carried out at MIT has in some cases led directly to the creation of new industries and markets. He identified work on option pricing and financial economics in the 1970s, which largely created the modern risk-sharing and financial engineering industry, as a case in point. The chairman's address also provided the graduates with a brief history of the MIT Economics Department, including the fact that in the 1880s MIT became the first US college or university to require all undergraduates to enroll in an economics course. For nearly 50 years the MIT Economics faculty taught only undergraduates, but in 1937 the department added a master's program, and in 1941 it began to expand its faculty and admit students for a PhD program.

MIT Economics has an exceptional presence in the world of central banking. Currently, four of our doctoral graduates head important central banks: Stan Fischer (PhD 1969) at the Bank of Israel, Vittorio Corbo (PhD 1971) at the Central Bank of Chile, Mario Draghi (PhD 1976) at the Bank of Italy, and Ben Bernanke at the Fed. The visibility of this group calls attention to a long-standing pattern of important involvement by our department's graduates in the research and policy-making roles at central banks, finance ministries, and international economic organizations. At MIT, the World Economic Laboratory,

codirected by Class of 1941 professor Olivier Blanchard and Ford International professor Ricardo Caballero, focuses its attention on monetary policy issues and provides an institutional setting for occasional meetings and research projects that address issues of concern to central banks.

The past year was also extraordinary for the honors and recognitions bestowed on our distinguished faculty. In January 2006, Charles Kindleberger professor Daron Acemoglu received the John Bates Clark Medal. The ceremony was particularly poignant for members of the MIT Economics community because the award was presented by American Economic Association president George Akerlof (PhD 1966). This spring, Institute Professor Peter Diamond was honored as the inaugural recipient of the Jean-Jacques Laffont Prize in Toulouse, France. Professors Joshua Angrist and Acemoglu were elected fellows of the American Academy of Arts and Sciences. Professor Acemoglu and Abdul Latif Jameel professor Esther Duflo were honored as Young Global Leaders at the World Economic Forum in Davos, Switzerland. Pentti J. Kouri assistant professor Muhamet Yildiz and assistant professor George-Marios Angeletos received Sloan Foundation fellowships. Professor Jonathan Gruber and department graduate David Cutler (PhD 1991) were selected as the inaugural recipients of the American Society of Health Economists' award for outstanding health economists under the age of 40. Elizabeth and James Killian professor Paul Joskow received the Yale Medal, which recognizes outstanding service to the Yale University community. Professor Joskow also received the prestigious Gordon Y Billard Award at MIT. This Institute-wide award recognizes outstanding service to the MIT community.

Our faculty and graduates continued to play an active part in the public policy process, both in the United States and abroad. Professor Gruber was appointed to the board of the Massachusetts Commonwealth Health Insurance Connector Authority, the governing body that will regulate insurance coverage options under a revolutionary state plan that seeks to provide health insurance to all state residents. Professor Blanchard serves on the Conseil d'Analyse Economique for the French prime minister. Mitsui professor James Poterba served on the President's Advisory Panel on Tax Reform, which delivered its report to the secretary of the treasury in November 2005. Matthew Slaughter (PhD 1994) is currently serving on the US Council of Economic Advisors. Jeffrey Brown (PhD 1999) has been nominated to serve on the President's Social Security Advisory Board.

### **Program Highlights**

We had 20 PhD students on the job market this year. They placed very well, and all had jobs by the end of the term. Eleven graduates accepted assistant professorships, four in top 10 economics departments or business schools; three accepted government positions; three accepted positions in the private sector; and three accepted positions in nonprofit research institutions.

Next year's entering class of 25 PhD students includes 12 international students, several of whom have undergraduate degrees from US universities, and 10 women. Seven students in the entering class received National Science Foundation fellowships.

Undergraduate enrollment remained steady this year, with a total of 2,114 student registrations in our economics classes. The number of economics majors was up by 10 percent, with 111 students registered as economics majors; of these students, 39 graduated in June. Economics had 41 double majors, 121 minors, and 325 completed concentrations.

## Personnel

The department had 33 nonvisiting faculty members this year. This number will increase to 34 next year.

Paul A. Samuelson professor of economics Bengt Holmström will step down as department head after three years of service. He will be succeeded by Professor Poterba, who has been associate head for 12 years. The new associate head will be Professor Gruber.

The 3M associate professor of environmental economics, Michael Greenstone, was approved for promotion to full professor, and Professors Angeletos and Yildiz were promoted to associate professor without tenure. Assistant professor Mikhail Golosov was reappointed. All appointments will be effective July 1, 2006. During the year, Professor Duflo was named the inaugural holder of the Abdul Latif Jameel professorship of poverty alleviation and development economics.

As part of the regular recruitment process for junior faculty, the department solicited/received 292 CVs. Thirty-two candidates, including five women, were selected for interviews. We made one offer this year, to Panle Jia, who accepted the offer. Jia, who received her PhD from Yale University in 2006, specializes in structural empirical work in industrial organization.

There were nine visiting professors for all or part of AY2005–2006. Annual visiting professor Ernst Fehr taught experimental economics. Annual visiting professor Jean Tirole (PhD 1981) taught a topics course in corporate finance. Annual visiting professor Mathias Dewatripont taught microeconomic theory. Visiting professors Francesco Giavazzi (PhD 1978) and Mark Aguiar taught international economics. Visiting assistant professor Graham Elliot taught econometrics. Visiting professor Jordi Galí (PhD 1989) taught macroeconomics. Visiting professor Robert Townsend taught development. Visiting professor Henry Gemery taught economic history.

With the addition of Panle Jia, the department will have six women on the faculty next year—three tenured professors, two assistant professors, and one senior lecturer. We have no members of underrepresented minority groups on the faculty; however, we do have two minority (both Asian) members. All search committees are instructed to identify outstanding women and minority candidates as part of their search process.

## Honors and Awards

Professor Acemoglu was elected a fellow of the American Academy of Arts and Sciences and was also elected a fellow of the Econometric Society. Professors Angeletos and Yildiz were awarded Alfred P. Sloan Foundation fellowships. Professor Angrist was elected

a fellow of both the American Academy of Arts and Sciences and the Society of Labor Economists.

Associate professor David Autor won the John T. Dunlop Outstanding Scholar Award, presented by the Labor Employment Relations Association. Professor Blanchard was elected president of the Conseil Scientifique, École d'Économie de Paris. He also presented the Marshall lectures at the University of Oxford. Professor Caballero presented the Yrjö Jahnsson lectures in Helsinki, Finland. Professor Diamond was awarded the first Jean-Jacques Laffont Prize in Toulouse.

Professor Glenn Ellison shared the Graduate Economic Association Teaching Award with Jane Berkowitz Carlton and Dennis William Carlton professor Whitney Newey. Assistant professor Amy Finkelstein received the CESifo Distinguished Research Affiliate Award. Associate professor Xavier Gabaix received the Young Scientist Award for Socio- and Econophysics from the German Physical Society's Section for Physics of Socio-Economic Systems. Professor Golosov became a program committee member for the Society for Economic Dynamics annual meeting.

Professor Greenstone was appointed to the editorial boards of the *Review of Environmental Economics and Policy* and the *Journal of Economic Literature*. Professor Gruber was awarded the inaugural Medal for Outstanding Health Economist Age Forty and Under by the American Society of Health Economists. Professor Jeffrey Harris was the winner of the 2006 Undergraduate Economic Association Teaching Award. John and Jennie S. MacDonald professor Jerry Hausman was elected a fellow of the Modeling and Simulation Society of Australia and New Zealand and awarded that society's Biennial Medal.

Professor Holmström was elected a foreign member of the Royal Swedish Academy of Engineering Sciences. He was also elected to serve on the International Advisory Board of the New Economic School in Moscow. Professor Joskow was awarded the Yale Medal and presented the Beesley lectures at the London Business School. He was also the recipient of MIT's Gordon Y Billard Award.

David W. Skinner professor Michael J. Piore became the president elect of the Society for the Advancement of Socio-Economics. Professor Poterba was appointed chair of the Honors and Awards Committee of the American Economics Association and was elected a trustee of the College Retirement Equity Fund. Professor Nancy L. Rose became a board member of the Committee on the Status of Women in the Economics Profession. Panle Jia was a participant in the Review of Economic Studies Tour, a distinction also earned in the previous year by assistant professor Stephen Ryan.

## Research Achievements

The following selection of publications during the academic year illustrates the scope of the department's research activities. Professor Acemoglu's article "Unbundling Institutions," with Simon Johnson (PhD 1989), was published in the *Journal of Political Economy*. Professor Angeletos's article "Fairness and Redistribution," with Alberto Alesina, was published in the *American Economic Review*. Professor Angeletos's and

assistant professor Iván Werning's article "Commitment vs. Flexibility," with Manuel Amador (PhD 2003), was published in *Econometrica*. Professor Angrist's and Castle Krob associate professor Victor Chernozhukov's article "Quantile Regression Under Misspecification, with an Application to the US Wage Structure," with Iván Fernandez-Val (PhD 2005), was published in *Econometrica*. Professor Autor's article "The Costs of Wrongful-Discharge Laws," with John J. Donohue III and Stewart J. Schwab, is forthcoming in the *Review of Economics and Statistics*.

Professor Caballero's article "Bubbles and Capital Flow Volatility: Causes and Risk Management," with graduate student Emmanuel Farhi and Muhammed Hammour (PhD 1989), was published in the *American Economic Review*. Professor Chernozhukov's and Professor Newey's article "Instrumental Variable Identification and Estimation of Nonseparable Models," with Guido Imbens, is forthcoming in the *Journal of Econometrics*. Professor Dora Costa's article "Forging a New Identity: The Costs and Benefits of Diversity in Civil War Combat Units for Black Slaves and Freemen," written with Matthew Khan, is forthcoming in the *Journal of Economic History*. Professor Ellison's paper "Bounded Rationality in Industrial Organizations" is forthcoming in *Advances in Economics and Econometrics, Theory and Applications* (Richard Blundell, Whitney Newey, and Torsten Persson, eds.). Senior lecturer Sara F. Ellison's article "Coordinating on Lower Prices: Pharmaceutical Pricing Under Political Pressure," with Catherine Wolfram (PhD 1996), is forthcoming in the *RAND Journal of Economics*. Assistant professor Haluk Ergin's article "Games of School Choice under the Boston Mechanism," with Tayfun Sonmez, was published in the *Journal of Public Economics*. Professor Finkelstein's article "The Aggregate Effects of Health Insurance: Evidence from the Introduction of Medicare" is forthcoming in the *Quarterly Journal of Economics*.

Professor Gabaix's article "Shrouded Attributes, Consumer Myopia and Information Suppression in Competitive Markets," with David Laibson (PhD 1994), was published in the *Quarterly Journal of Economics*. Professor Golosov's article "Designing Optimal Disability Insurance: A Case for Asset Testing," with Aleh Tsyvinski, was published in the *Journal of Political Economy*. Professor Greenstone's article "Mandated Disclosure, Stock Returns, and the 1964 Securities Act," written with Paul Oyer and Annette Vissing-Jorgensen (PhD 1998), was published in the *Quarterly Journal of Economics*. Professor Gruber's article "Does Falling Smoking Lead to Rising Obesity?" with graduate student Michael Frakes, was published in the *Journal of Health Economics*. Professor Hausman's article "Did Mandatory Unbundling Achieve Its Purpose? Empirical Evidence from Five Countries" was published in the *Journal of Competition Law and Economics*. Professor Holmström's article "Pay without Performance and the Power Hypothesis: A Comment" was published in the *Journal of Corporation Law*. Assistant professor Sergei Izmalkov's paper "Rational Secure Computation and Ideal Mechanism Design," with Matt Lepinski and Silvio Micali, was published in the *Proceedings of the 46th Annual Symposium on Foundations of Computer Science*.

Professor Joskow's article "Markets for Power in the United States: An Interim Assessment" was published in the *Energy Journal*. Professor Piore's article "Changing Regimes of Workplace Governance, Shifting Axes of Social Mobilization and the Challenge to Industrial Relations Theory," written with Sean Safford, is forthcoming

in *Industrial Relations*. Professor Poterba published “Tax Loss Trading by Individual Investors” in the *American Economic Review*, in collaboration with Scott Weisbenner (PhD 1999) and Zoran Ivkovic. Elisha Gray II professor of economic history and applied economics Peter Temin published the article “The 1990s as a Postwar Decade” in *The Global Economy in the 1990s: A Long-Run Perspective*. Professor William Wheaton’s article “The Cyclic and Secular Behavior of ‘True’ Construction Costs” was published in the *Journal of Real Estate Research*. Professor Yildiz’s article “Wishful Thinking in Strategic Environments” was accepted for the *Review of Economic Studies*.

## Future Plans

The department is in excellent shape, with a good balance across fields and significant depth in several key areas. The very talented and exciting young faculty provides an outstanding foundation for future growth. Our plan is to expand the department at a measured pace in the next few years without losing our unique character. We will be active mainly in the junior market, but also selectively in the senior market.

Despite MIT’s overall austerity program, our financial situation remains solid, helped by the administration’s strong commitment to economics and by our exceptionally generous alumni. We have stepped up our fund-raising efforts with significant support from our visiting committee. Our intention is to launch a capital campaign in the coming year.

The work done by MIT’s Task Force on the Undergraduate Educational Commons will prompt a careful review of our undergraduate offerings. Over the past five years, our undergraduate class enrollments have increased, while the number of undergraduates declaring economics as a major or a minor has decreased somewhat. Our goal is to increase these numbers substantially by expanding our elective offerings and, pending the outcome of the task force’s report, by creating one or two new courses with broad appeal.

**Bengt Holmström**

**Department Head**

**Paul E. Samuelson Professor**

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