

Department of Economics

The MIT Economics Department is widely regarded as one of the world's premier institutions for economic research and education. Our faculty balance substantial commitments to training both undergraduates and doctoral students with active and influential research programs. The department recently completed the Economics Leadership Campaign, an important capital campaign to ensure that MIT will continue to attract the most promising graduate students and the most productive and exciting faculty in the decades ahead. With one of the youngest senior faculties among its peer institutions, MIT Economics is well positioned to play a central role as an innovator in economics research and as a source of exciting new directions in undergraduate and graduate economics education.

Highlights of the Year

The financial and economic crisis made this year a very challenging one for academic institutions. These challenges also made it an exciting time to be an economist. This was a good year for the Economics Department as we reacted to the crisis in a number of ways while continuing our traditional educational and research roles. Within the Institute, the department held two forums in which faculty members spoke on the financial crisis to overflow crowds and the department head moderated a discussion on the crisis by George Soros. Economics faculty members wrote numerous policy pieces in the immediate aftermath of the crisis and a number of research papers have also begun to surface.

The department is grateful that the financial crisis did not prevent us from taking advantage of opportunities to continue to build our department with exciting young faculty. We hired two assistant professors in the 2008–2009 academic year. Mihai Manea, a microeconomic theorist, comes to us after completing his PhD at Harvard, and Dave Donaldson, who works in development economics, international economics, and economic history, joined us from the London School of Economics. The department also promoted Muhamet Yildiz to full professor and Guido Lorenzoni to untenured associate professor. Peter Temin retired, but will continue as part of the emeriti faculty in the department, teaching two courses during the 2009–2010 academic year.

Three senior faculty members took leaves of absence in important policy and public service roles. Olivier Blanchard started a two-year leave of absence in September 2008 to assume the position of chief economist at the International Monetary Fund, Michael Greenstone served as the chief economist at the Council of Economic Advisers, and Paul Joskow served as president of the Alfred P. Sloan Foundation. One of our junior faculty members, Mikhail Golosov, left to take up a tenured professorship at Yale University.

Faculty members carried out research on a wide range of interesting and important questions. The span of this research is described below, as well as a selection of recent academic publications. This research has attracted attention not only within the academic sphere, but in many cases in the popular press as well. While not all economics research can be easily distilled for a broad audience, research in public finance,

industrial organization, development economics, labor economics, and macroeconomics has often been the subject of popular writing.

Our faculty also serve the economics profession through a number of leadership positions. James Poterba is vice president and Daron Acemoglu is a member of the executive committee of the American Economic Association. David Autor edits the American Economic Association's *Journal of Economic Perspectives*, while Esther Duflo has had great success in building the association's *American Economic Journal: Microeconomics* as its first editor. Bengt Holmström was elected the second vice president of the Econometric Society, which means that he will take over as the society's president in 2011.

The MIT Undergraduate Economics Association continued to be a fertile ground for rounding out the economics education of our undergraduate students. The association sponsored two public lectures. The first was a panel discussion featuring Robert Solow and N. Gregory Mankiw PhD '84 in November 2008. The panel focused on economics policies for President Obama. The second lecture was by MIT economics professor Jerry Hausman in April 2009. He discussed Wal-Mart and the company's effect on low-income families. Both lectures were very well attended by undergraduate majors as well as other interested students. Undergraduate economics course enrollments trended upward in the last year, extending a recent pattern.

The Abdul Latif Jameel Poverty Action Lab (J-PAL), directed by Ford International professor Abhijit Banerjee and Abdul Latif Jameel professor of poverty alleviation and development economics Esther Duflo PhD '99, continues to expand the scope and influence of its research. J-PAL is widely recognized as one of the leading global institutions for research on poverty alleviation. Several major new research initiatives have begun with research support from many organizations. This past year J-PAL was awarded, among other grants, a Bill and Melinda Gates Foundation grant to conduct several research projects over the next several years.

The past year was also a busy one for MIT alumni, who played a large role in the country's and world's reactions to the financial and economic crisis. In the US, Ben Bernanke PhD '79 serves as chairman of the Federal Reserve Board. Lawrence Summers '75 is director of the National Economic Council. Christina Romer PhD '85 is chair of the Council of Economic Advisers where Austan Goolsbee PhD '95 is a member. Elsewhere, MIT alumni serve as central bankers. The list includes José DeGregorio PhD '79, governor of the Central Bank of Chile; Mario Draghi PhD '76, governor of the Bank of Italy; Stanley Fischer PhD '69, an emeritus member of the MIT faculty and governor of the Bank of Israel; and Athanasios Orphanidies '85, PhD '90, governor of the Central Bank of Cyprus. Our graduates also had a good year, sweeping the most distinguished awards in the profession. MIT graduate and former MIT faculty member Paul Krugman PhD '77 was awarded the Nobel Memorial Prize in Economic Sciences "for his analysis of trade patterns and the location of economic activity." Emmanuel Saez PhD '99 won the American Economic Association's John Bates Clarke Award as the most outstanding economist under 40 years of age. Harrison Hong PhD '97 was awarded the American Finance Association's Fisher Black Prize as the person under 40 who has contributed the most to the theory and practice of finance. Amy Finkelstein PhD '01 was awarded the Elaine Bennett Prize.

Several faculty members, students and staff were recognized during the past year for their outstanding service to the Economics Department and MIT. Glenn Ellison PhD '92 won the Graduate Economic Association's Teacher of the Year award for the fifth consecutive year. Daron Acemoglu was honored as the Outstanding Dissertation Advisor. Nancy Rose received a special award for her work on graduate placement. Brigham Frandsen and Florian Scheuer were honored as the most outstanding teaching assistants. Konrad Menzel received the Robert M. Solow Prize, an award presented each year to a graduating doctoral student who has excelled in both teaching and research. The Undergraduate Economics Association presented its faculty and graduate student teaching awards to Jerry Hausman and Brandon Lehr. Brandon was also selected by the School of Humanities, Arts and Social Sciences as the first winner of the Levitan Award for outstanding teaching assistance. Staff members Linda Woodbury and Gary King both received the School of Humanities, Arts, and Social Sciences Infinite Mile Award for 25 years of service at MIT.

Future Plans

The MIT Economics Department has a young, productive, and innovative faculty that will be able to lead the department in the decades ahead. We hope to expand our faculty count at a modest pace in the coming years, with an ultimate target of 38 faculty members. Current financial realities are likely to delay movement toward this target, but we hope to be able to move forward in the not-too-distant future. Plans for such expansion would enable us to reduce our reliance on teaching visitors. Most hiring is likely to take place in the junior market, although we may make selective efforts in the senior market. The support of MIT's administration and the generosity of our alumni have been critical factors in the department's historical success, and they will play a vital role going forward.

The Economics Leadership Campaign, which concluded in December 2008, was a key step in advancing our long-term plans. This two-year campaign raised over \$15 million in new endowment resources for both professorships and fellowships. Several members of the Economics Department Visiting Committee led the campaign: Denis Bovin '69, Donald Layton '72, and Kenneth Wang '71. The campaign generated many opportunities for alumni contact with the Economics Department, and we are optimistic that it will provide the groundwork for an increase in the long-term interplay between the department and alumni.

Ongoing campus-wide discussions about the structure of the undergraduate program at MIT are sure to lead to careful review of our undergraduate offerings in the next few years. Our undergraduate class enrollments have increased in the last few years, reflecting growing interest in both financial markets and development economics among undergraduates.

Personnel

There were 35 non-visiting Economics faculty members in the 2008–2009 academic year. This number will increase to 36 for academic year 2009–2010. As stated earlier, the department hired two new assistant professors, Mihai Manea from Harvard and Dave Donaldson from the London School of Economics. As part of the regular recruitment

process for junior faculty, the department solicited or received 247 curriculum vitae. Thirty-one candidates were selected for interviews. One faculty member, Mikhail Golosov, has decided to leave for a tenured professor position at Yale.

Nine faculty members visited the MIT Economics Department for all or part of AY2009. The department's three annual visitors continued to participate in central ways in our educational programs. Visiting professor Ernst Fehr taught experimental economics. Visiting professor Jean Tirole PhD '82 taught a topics course in corporate finance. Visiting professor Mathias Dewatripont taught microeconomic theory. In addition, a number of other visitors played important roles in our educational program. They include James Anderson, Richard Blundell, Edward Cho, Courtney Coile, Lucas Davis, Peter Eso, Francesco Giavazzi PhD '78, Kiminori Matsuyama, Casey Rothschild PhD '06, and Robert Triest. Due to an extraordinary number of faculty leaves in the past year, the number of visiting faculty was unusually high. Fortunately, the faculty, students, and atmosphere of the MIT Economics Department are a strong draw for potential visitors, and it was possible to staff all of the department's standard course offerings.

There are six women on the MIT Economics faculty: three tenured faculty members (Duflo, Finkelstein, and Rose), two assistant professors (Jia and Mikusheva), and one senior lecturer (Sara F. Ellison). The share of women economics faculty at MIT is greater than that at any other leading economics department. We have no African American faculty members. All search committees are instructed to identify outstanding women and minority candidates as part of their search process.

Honors and Awards

Department faculty members received a number of prizes and awards this year, and were selected for a number of roles in professional service.

Charles Kindleberger professor Daron Acemoglu was featured in a column titled "Best and Brightest" in August 2009 in *Esquire Magazine*.

Professor David Autor was elected to the Society of Labor Economists and served as editor in chief of the *Journal of Economic Perspectives*.

Professor Ricardo Caballero won the Smith Breeden first prize for best paper, awarded by the *Journal of Finance*, as well as the Emerald Management Review Citation of Excellence Award.

Professor Victor Chernozhukov was the inaugural speaker at the Cowles Lecture of Econometric Society.

Professor Duflo was elected to the American Academy of Arts and Sciences. She also received the BBVA Foundation Frontiers of Knowledge Award for development cooperation.

Gregory K. Palm professor Glenn Ellison won the MIT Graduate Economics Association Teacher of the Year award.

Professor Robert Gibbons was elected to the American Academy of Arts and Sciences.

Professor Amy Finkelstein won the TIAA-CREF Paul A. Samuelson Award as well as the Elaine Bennett Research Prize.

3M professor of economics Michael Greenstone was elected to serve as chief economist in the Council of Economic Advisers.

Professor Jerry Hausman won the MIT Undergraduate Economics Association Teaching award.

Paul A. Samuelson professor Bengt Holmström served as chairman for the European Research Council's SH1 panel for advanced grants. He was also elected second vice president of the Econometric Society.

Associate professor Guido Lorenzoni was the recipient of an Alfred P. Sloan research fellowship.

Mitsui professor James Poterba was elected president of the National Tax Association and vice president of the American Economic Association, and began his term as president of the National Bureau of Economic Research.

Professor Robert Townsend received the Elizabeth and James Killian professor of economics chair.

Professor William Wheaton received the Graaskamp Prize for distinguished contributions to real estate.

Research Achievements

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

Professor Daron Acemoglu's book *Introduction to Modern Economic Growth* was published in February 2009 by Princeton University Press. He also published "Input and Technology Choices in Regulated Industries: Evidence from the Healthcare Sector" with A. Finkelstein in the *Journal of Political Economy* and "Coalition Formation in Nondemocracies" with G. Egorov and K. Sonin in *Review of Economic Studies*.

Professor George-Marios Angeletos's article "Incomplete Information, Higher-Order Beliefs, and Price Inertia" with J. La'O was published in the *Journal of Monetary Economics*. He also published "Policy with Dispersed Information" with A. Pavan in the *Journal of the European Economic Association*.

Professor Joshua Angrist's article "The Effects of High Stakes High School Achievement Awards: Evidence from a Group-Randomized Trial" with V. Lavy is forthcoming in *The American Economic Review*. He also published his book *Mostly Harmless Economics*, written with S. Pishke, and the article "Incentives and Services for College Achievement:

Evidence from a Randomized Trial” with P. Oreopoulos and D. Lang in *American Economic Journal: Applied Economics*.

Professor David Autor edited *Studies of Labor Market Intermediation*, forthcoming from the University of Chicago Press, and his article “This Job is ‘Getting Old:’ Measuring Changes in Job Opportunities using Occupational Age Structure” with D. Dorn is forthcoming in the *American Economic Review Papers and Proceedings*.

Professor Olivier Blanchard’s article “The State of Macro” is forthcoming in the *Annual Review of Economics*.

Professor Ricardo Caballero’s article “Global Imbalances and Financial Fragility” is forthcoming in the *American Economic Review Papers and Proceedings*. He also published “Zombie Lending and Depressed Restructuring in Japan” and “An Equilibrium Model of ‘Global Imbalances’ and Low Interest Rates,” both in the *American Economic Review*.

Professor Victor Chernozhukov’s article “Finite-Sample Inference in Quantile Regression Models” with C. Hansen and M. Jansson was published in the *Journal of Econometrics*. He also published “Computational Complexity of MCMC-Based Estimators in Large Samples” with A. Belloni in *Annals of Statistics*.

Professor Arnaud Costinot’s article “On the Origins of Comparative Advantage” was published in the *Journal of International Economics*.

Professor Esther Duflo’s article “Powerful Women: Does Exposure Reduce Bias?” with several co-authors, is forthcoming in the *Quarterly Journal of Economics*. Her articles “Pitfalls of Participatory Programs: Evidence From a Randomized Evaluation in Education in India” with several co-authors in *American Economic Journal* and “The Experimental Approach to Development Economics” with A. Banerjee in *Quarterly Journal of Economics*, are forthcoming.

Professors Glenn Ellison and Sara Fisher Ellison coauthored an article, “Search, Obfuscation, and Price Elasticities on the Internet,” published in *Econometrica*. Glenn also published “Random Matching in Adaptive Dynamics” with D. Fudenberg and L. Imhof in *Games and Economic Behavior*.

Professor Amy Finkelstein’s article “EZ-Tax: Tax Salience and Tax Rates” was published in the *Quarterly Journal of Economics*.

Professor Michael Greenstone’s articles “Winter Heating or Clean Air?” and “Climate Change and Birth Weight,” both with several co-authors, were published in the *American Economic Review Papers and Proceedings*.

Professor Jon Gruber’s article “Patient Cost-Sharing, Hospitalization Offsets, and the Design of Optimal Health Insurance for the Elderly” with A. Chandra and R. McKnight is forthcoming in the *American Economic Review*. He also published “Covering the Uninsured in the United States” in the *Journal of Economic Literature*.

Professor Jeffrey Harris's article "Heterogeneous Impact of the 'Seguro Popular' Program on the Utilization of Obstetric Services in Mexico, 2001–2006: A Multinomial Probit Model with a Discrete Endogenous Variable" with S. Sosa-Rubi and O. Galarraga was published in the *Journal of Health Economics*.

Professor Jerry Hausman's article "A Bayesian Mixed Logit-Probit Model for Multinomial Choices" with M. Burda and M. Harding was published in the *Journal of Econometrics*.

Professor Holmström's article "Commentary: The Panic of 2007" was published by the Federal Reserve of Kansas City in *Maintaining Stability in a Changing Financial System*. His manuscript "Inside and Outside of Liquidity, Wicksell Lectures" with J. Tirole was accepted for publication by MIT Press.

Professor Panle Jia's article "What Happens When Wal-Mart Comes to Town: An Empirical Analysis of the Discount Industry" was published in *Econometrica*.

Professor Paul Joskow's article "The Economic Future of Nuclear Power" with J. Parsons is forthcoming in *Daedalus*. He also published "Vertical Integration" in *Issues in Competition Law*, W. Dale Collins, ed., in the American Bar Association section on antitrust law.

Professor Guido Lorenzoni's article "Bubbles and Self-Enforcing Debt" was published in *Econometrica*. He also wrote the following forthcoming articles: "A Theory of Demand Shocks" in the *American Review of Economics*, "Optimal Monetary Policy with Uncertain Fundamentals and Dispersed Information" in *Review of Economic Studies*, and "Liquidity and Trading Dynamics" in *Econometrica*.

Professor Whitney Newey's article "Estimation with Many Instrumental Variables" with C. Hansen and J. Hausman is forthcoming in the *Journal of Business and Economic Statistics*. Newey's article "Identification and Estimation of Triangular Simultaneous Equation Models Without Additivity" with G. Imbens is also forthcoming in *Econometrica*.

Professor Benjamin Olken's article "Temperature and Income: Reconciling New Cross-Sectional and Panel Estimates" with M. Dell and B. Jones was published in the *American Economic Review Papers and Proceedings*. He also published "The Simple Economics of Extortion" with P. Barron in the *Journal of Political Economy*.

Professor James Poterba's article "Redistribution by Insurance Market" with A. Finkelstein and C. Rothschild was published in the *Journal of Financial Economics*.

Professor Nancy Rose's article "Comment on 'Air Transportation Regulation by Elizabeth E. Bailey'" is forthcoming in the book *Better Living Through Economics*.

Professor Peter Temin's article "Real Business Cycle Views of the Great Depression and Recent Events: A Review of Timothy J. Kehoe and Edward C. Prescott's *Great Depressions*

of the Twentieth Century” was published in the *Journal of Economic Literature*. He also co-wrote *The World Economy Between the Wars* with C. Feinstein and G. Toniolo and *Reasonable Rx: How to Lower Drug Prices* with S. Finkelstein.

Professor Robert Townsend’s article “Impact of Climate Change on Rice Production in Thailand” with J. Felkner and K. Tazhibayeva was published in the *American Economic Review*. He also wrote “Welfare Gains from Financial Liberalization” with K. Ueda, forthcoming in the *International Economic Review*, and his book *Financial Systems in the Developing Economies: Growth, Inequality, and Policy Evaluation in Thailand* is forthcoming from Oxford University Press.

Professor William Wheaton’s articles “100 Years of Commercial Real Estate Prices in Manhattan” and “Contemporaneous Loan Stress and Termination Risk in the CMBS Pool: How ‘Ruthless’ is Default?” were both published in *Real Estate Economics*.

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More information about the department can be found at <http://econ-www.mit.edu/>.