

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 undergraduates and doctoral students with equal dedication to their active and influential research programs. With one of the youngest senior faculties among its peer institutions, the department 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.

One emblematic example of this young leadership is Abdul Latif Jameel professor of poverty alleviation and development economics Esther Duflo PhD '99, who won this year's John Bates Clark Medal. The Clark Medal, which was awarded biennially from 1947 to 2008, is now awarded annually to the American economist under the age of 40 who is judged to have made the most significant contribution to economic thought and knowledge. For her work on HIV/AIDS education in Kenya, Professor Duflo was also awarded a 2009 MacArthur Fellowship, the award informally known as the "genius grant."

Highlights of the Year

Like many other schools, MIT had to make a number of cutbacks in response to the financial crisis, and the Economics Department has not been exempt from these cuts. We were grateful that the current financial situation did not prevent us from hiring stellar young faculty members. We hired two assistant professors in AY2010. Juuso Toikka, a microeconomic theorist, came to the department after completing his PhD at Stanford, and Heidi Williams, who works in labor, public, and health economics, joined us from Harvard University. Heidi will be a visiting scholar for academic year 2010–2011 and will join the faculty full time as an assistant professor in fall 2011. The department also promoted Guido Lorenzoni to the rank of tenured associate professor and Stephen Ryan to the rank of untenured associate professor. Ricardo Caballero continues to serve as department head. Glenn Ellison passed associate head duties on to David Autor on July 1, 2010, as he began his sabbatical.

We did remarkably well in the placement of our most recent cohort of PhD graduates in a challenging labor market. MIT had more students selected for this year's *Review of Economic Studies* tour than all other schools combined (four of the seven chosen were our students), and many other students are heading off to exciting positions in the US and abroad.

The most noteworthy development in our undergraduate program was the debut of a new freshman-oriented course, 14.73 *The Challenge of World Poverty*, developed by Esther Duflo and assistant professor Dave Donaldson. In the future, this course may play a role in a proposed Institute curricular reform calling for "first-year focus" classes. For now it is serving as the entry point of a new concentration in development economics; students not majoring in economics may use this course, a more advanced course in development economics, and 14.01 *Principles of Microeconomics* to meet the requirement of having a concentration in some Humanities, Arts, and Social Sciences field.

The MIT Undergraduate Economics Association (UEA) continued to be fertile ground for rounding out the economics education of our undergraduate students. UEA sponsored two public lectures. The first was the lecture “Social Preferences—A Foundation of Cooperation, Competition, and Incentives” by Ernst Fehr, who is a regular visiting professor at the Department of Economics. The second lecture was by Nobel laureate Paul Krugman, titled “The Economic Meltdown: What Have We Learned, If Anything?” Both lectures were overflowing with undergraduate economics majors, as well as other interested students. Undergraduate economics course enrollments trended upward in the last year, extending a recent pattern.

Our graduate program ran smoothly in the second year of the new organizational scheme, in which students take macroeconomics from the start of their first year. Recent Clark Medal winner Emmanuel Saez PhD '99 visited the department in the fall and taught a popular advanced public finance course. We also expanded our organizational economics offerings to include a full year's worth of courses beyond contract theory.

Faculty members have carried out research on a variety of questions that range from the timely to the timeless. The span of this research is illustrated below, with a selection of recent academic publications. This research has attracted attention within the academic sphere and, in many cases, in the national and international press. 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.

MIT faculty members continue to provide leadership and service to the economics profession. James Poterba serves as president and chief executive officer of the National Bureau of Economic Research (NBER) and is a trustee in the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF), CREF, and the Alfred P. Sloan Foundation. He recently completed his service as president of the National Tax Association and also served as vice president of the American Economic Association through January 2010. Daron Acemoglu and Jon Gruber serve on the executive committee of the American Economic Association. Glenn Ellison was elected as a council member of the Econometric Society, joining Daron Acemoglu; Bengt Holmström is first vice president of the society. David Autor edits the *Journal of Economic Perspectives*. Daron Acemoglu is coeditor of *Econometrica*. Esther Duflo has had great success in building the *American Economic Journal: Microeconomics* as the founding editor. Jonathan Gruber directs NBER's Health Care Program. Nancy L. Rose directs the Industrial Organization Program and this year joined the board of directors of the Whitehead Institute for Biomedical Research. Amy Finkelstein codirects NBER's Public Economics Program. Parag Pathak codirects the Market Design Working Group. Iván Werning became associate editor of both *Econometrica* and the *American Economic Journal: Macroeconomics*.

Other faculty are continuing the department's tradition of broader public service. Olivier Blanchard remains on leave from the department while serving as chief economist of the International Monetary Fund. Michael Greenstone spent 2009 as chief economist of the Council of Economic Advisers and will be on a partial leave during the upcoming

academic year while serving as director of the Hamilton Project. Jonathan Gruber serves on the board of the independent state agency administering the Massachusetts health care reforms.

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, 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.

Several faculty members, students, and staff were recognized during the past year for their outstanding service to the Economics Department and MIT. Robert Gibbons won the Graduate Economic Association's (GEA) Award for Best Professor. Amy Finkelstein PhD '01 was honored as Outstanding Dissertation Advisor. Brigham Frandsen was honored by GEA as the Most Outstanding Teaching Assistant. This year we had a three-way win for the Robert Solow Prize for Excellence in Teaching and Research. The winners were Pablo Kurlat, Florian Scheuer, and Alp Simsek. UEA presented its faculty and graduate student teaching awards to Parag Pathak and Alp Simsek. Stephen P. Ryan won the James A. and Ruth Levitan Award for Excellence in Teaching.

The past year was also one of transitions for the MIT Economics Department. One of the major transitions was the passing of Paul Samuelson on December 13, 2009. Paul transformed both the Economics Department and the field of economics. Even in his 70th year in the department, he remained a remarkable presence at faculty lunches and in the hallways. He is greatly missed.

Two faculty members who shaped the department in the generations after Paul are simultaneously moving on to other pursuits. Paul Joskow, who has been serving as president of the Alfred P. Sloan Foundation while on leave from MIT, has announced that he will retire from MIT and continue at the Sloan Foundation. Peter Diamond is retiring from teaching in the Economics Department in the fall of 2010. Peter's retirement from MIT was marked by a major conference that attracted over 70 students, coauthors, and admirers of Peter's from around the globe. It featured talks by Olivier Blanchard, John Geanakoplos, Robert Hall, James Mirrlees, Emmanuel Saez, Robert Shimer, and Eytan Sheshinski. Events surrounding the conference provided the social highlights of the year. A group of faculty, students, and staff went to a Red Sox game and watched Peter throw out the first pitch. Shortly thereafter, many current and former students and faculty attended a special concert featuring pianists Robert Levin and Ya-Fei Chuang. The highlight of the concert was the world premiere of a new John Harbison composition written in Peter's honor titled *Diamond Watch: Double Play*.

All three of these faculty members—Paul Samuelson, Peter Diamond, and Paul Joskow—have been outstanding leaders at MIT, in addition to their estimable contributions in research and teaching. Their unselfish devotion set the tone for the department. We will greatly miss them.

Future Plans

The MIT Economics Department has a young, productive, and innovative faculty that will capably 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. Most hiring is likely to take place in the junior market, although we may make selective offers 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 department has also embraced a more conservative approach to management, which will, in turn, allow us to emerge stronger in this uncertain environment.

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. The faculty is committed to innovation in the undergraduate curriculum. Recent or planned innovations include courses on information technology and the labor market, economics and psychology, regulatory economics, environmental economics, and empirical financial economics. As part of an MIT-wide initiative on communication skills, the department also offers a course in which students carry out a series of increasingly independent research projects and hone their writing and presentation skills.

Personnel

There were 41 non-visiting Economics faculty members in the 2009–2010 academic year. This number will increase to 42 for academic year 2010–2011. As stated earlier, the department hired two new assistant professors, Juuso Toikka and Heidi Williams (who is not included in the above faculty count since she technically does not start as an assistant professor until July 2011).

Eight faculty members visited the Economics Department for all or part of AY2010. As usual, the department's two visitors participated 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. A number of other visitors played important roles in our educational program, including Hunt Allcott, the Environment Energy and Society Fellow in the Economics Department and the MIT Energy Initiative; Sandeep Baliga, associate professor of economic theory at the Kellogg School of Management at Northwestern University; Francesco Giavazzi, a macroeconomist from Bocconi University in Milan and a frequent MIT visitor; Veronica Guerrieri PhD '06, a young macroeconomist from the Booth School of Business at the University of Chicago; Gib Metcalf, a public finance and environmental economics professor from Tufts University; and Emmanuel Saez PhD '99, a public finance economist and professor of economics at the University of California at Berkeley. Because of a substantial number of faculty leaves in the past year, the count of visiting faculty was unusually high. Fortunately, the faculty, students, and atmosphere of the Economics Department are a strong draw for potential visitors, and it was possible to

staff all of the department's standard course offerings. We also had several faculty teach courses beyond their normal teaching load, minimizing disruptions to our program.

There are six women on the Economics faculty: three tenured faculty members (Duflo, Finkelstein, and Rose), two assistant professors (Panle Jia and Anna Mikusheva), and one senior lecturer (Sara F. Ellison). The number of female faculty members will rise to seven when Heidi Williams joins the faculty as an assistant professor in fall of 2011. 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.

As part of the regular recruitment process for junior faculty, the department solicited or received 238 curriculum vitae. Thirty-five candidates were selected for interviews. We made offers this year to new PhD candidates Juuso Toikka from Stanford and Heidi Williams from Harvard. Both offers were accepted.

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.

Professor David Autor was elected as a fellow of the Society of Labor Economists and also delivered the Hermann Otto Hirschfeld Lectures at Humboldt University in Berlin.

Ford International professor of economics Ricardo Caballero was elected as a fellow of the American Academy of Arts and Sciences.

Professor Victor Chernozhukov became a fellow of the Econometric Society.

Assistant professor Arnaud Costinot was elected as a research fellow at the Alfred P. Sloan Foundation. He also became the Associate Editor of the *Journal of the European Economic Association*.

Assistant professor Dave Donaldson was named an NBER Faculty Research Fellow.

Gregory K. Palm professor Glenn Ellison PhD '92 was elected as a council member in the Econometric Society.

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

Professor Amy Finkelstein was elected to the Institute of Medicine. She was also selected as this year's winner of GEA's award for Outstanding Dissertation Advisor.

3M professor of economics Michael Greenstone was appointed director of the Hamilton Project, a public policy think tank based at the Brookings Institution in Washington, DC. He was also named an eligible fellow for the Center for Advanced Study in the Behavioral Sciences.

Professor Jeffrey Harris was the keynote speaker at the 10th anniversary of the *Journal of Clinical Health Management* held in Spain.

Professor Jerry Hausman was the keynote speaker at the UC Berkeley Conference on Mobile Telecommunications. He was also awarded an honorary degree from Chiang Mai University in Thailand.

Paul A. Samuelson professor Bengt Holmström was elected Alumnus of the Year at the University of Helsinki. He also gave the inaugural lecture at the Universitat Politècnica de Catalunya and was the panel chair for the European Research Council.

Professor Paul Joskow won the Adelman-Frankel Award from the United States Association for Energy Economics. He was also the Mullen Lecturer at the University of Maryland in Baltimore County.

Professor Whitney Newey gave the Shanghai Lecture at the 2010 World Congress of the Econometric Society in Shanghai, China.

Mitsui professor James Poterba was the Geary Lecturer at the Economic and Social Research Institute in Dublin, Ireland. He was also the Bradley Lecturer at the University of Wisconsin in Milwaukee and the Harris Lecturer at Clemson University.

Professor Nancy L. Rose was part of the program committee for the American Economic Association's Annual Meeting for 2011.

Silverman 1968 Family career development assistant professor Stephen P. Ryan won the James A. and Ruth Levitan Award for Excellence in Teaching.

Elizabeth and James Killian professor Robert Townsend was named to the Alumni of Notable Achievement by the University of Minnesota.

Professor Iván Werning became the associate editor of *Econometrica* and *American Economic Review: Macroeconomics*.

Professor William Wheaton received the Best Paper Award for 2008 from the American Real Estate Society, given to him in spring 2009.

Research Achievements

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

Charles Kindleberger professor Daron Acemoglu wrote the book *Introduction to Modern Economic Growth* (Princeton University Press).

Ford professor of economics Joshua Angrist wrote the book *Mostly Harmless Econometrics: An Empiricist's Companion* (Princeton University Press).

Professor David Autor edited the volume *Studies of Labor Market Intermediation* (University of Chicago Press).

Ford International professor Ricardo Caballero published the article “Trade and Capital Flows: A Financial Frictions Perspective” in the *Journal of Political Economy*.

Professor Victor Chernozhukov published “Rearranging Edgeworth-Cornish-Fisher Expansions” in *Economic Theory*.

Assistant professor Arnaud Costinot published “An Elementary Theory of Comparative Advantage” in *Econometrica*.

Assistant professor Dave Donaldson’s article “Can Trade Openness Mitigate the Effects of Weather Shocks? Evidence from India’s Famine Era” was published in the *American Economic Review*.

Gregory K. Palm professor Glenn Ellison PhD ’92 published “Tax Sensitivity and Home State Preference in Internet Purchasing,” coauthored with Sara F. Ellison, in the *American Economic Journal: Economic Policy*.

Senior instructor Sara F. Ellison published “Search, Obfuscation, and Price Elasticities on the Internet” with coauthor Glenn Ellison in *Econometrica*.

Professor Amy Finkelstein’s article “Optimal Mandates and The Welfare Cost of Asymmetric Information: Evidence from the UK Annuity Market” was published in *Econometrica*.

3M professor of economics Michael Greenstone published “Effective Regulation through Credible Cost-Benefit Analysis: The Opportunity Costs of Superfund” in *Government and Markets: Toward a New Theory of Regulation* (Cambridge University Press).

Professor Jonathan Gruber’s article “How Sensitive are Low Income Individuals to Price Differentials Across Health Plan Choices?” with David Chan was published in the *American Economic Review Papers and Proceedings*.

Professor Jeffrey E. Harris and coauthors published “Heterogeneous Impact of the ‘Seguro Popular’ Program on the Utilization of Obstetric Services in Mexico, 2001-2006: A Multinational Probit Model with a Discrete Endogenous Variable” in the *Journal of Health Economics*.

McDonald professor of economics Jerry Hausman’s article “The CPI: Its Importance and Prospects for Improvement” was published in *Better Living through Economics*.

Paul A. Samuelson professor Bengt Holmström published “A Theory of Firm Scope” with Oliver Hart in the *Quarterly Journal of Economics*.

Elizabeth and James Killian professor of economics and management Paul A. Joskow published “The Economic Future of Nuclear Power” with John Parsons in *Daedalus*.

Professor Whitney Newey’s article “Identification and Estimation of Triangular Simultaneous Equations Models without Additivity” with Guido Imbens was published in *Econometrica*.

Associate Professor Benjamin Olken’s article “Do TV and Radio Destroy Social Capital? Evidence from Indonesian Villages” was published in the *American Economic Journal: Applied Economics*.

Economics career development assistant professor Parag Pathak published “Incentives and Stability in Large Two Sided Matching Markets” in the *American Economic Review*.

Professor Michael J. Piore’s article “Conceptualizing the Dynamics of Industrial Districts” was published in *The Handbook of Industrial Districts* (Northampton, MA, US; Cheltenham, UK).

Mitsui professor James Poterba published *Tax Policy and the Economy: Volume 23* (Cambridge: MIT Press).

Elizabeth and James Killian professor of economics Robert Townsend’s book *Households as Corporate Firms: An Analysis of Household Finance Using Integrated Household Surveys and Corporate Financial Accounting* was published.

Professor Iván Werning published “Progressive State Taxation” in the *Quarterly Journal of Economics*.

Professor William C. Wheaton’s article “Contemporaneous Loan Stress and Termination Risk in the CMBS Pool: How ‘Ruthless’ is Default” with Tracey Seslen was published in *Real Estate Economics*.

Professor Muhamet Yildiz published “Investor Sentiments” with Sergei Izmalkov in the *American Economic Journal: Microeconomics*.

Ricardo Caballero
Department Head

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