

US duo win Economics Nobel for macro work

Written by AFP / The Swedish Wire

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STOCKHOLM, October 10, 2011 (AFP) - Two US researchers won the 2011 Nobel Economics Prize Monday for research on how different events affect economies and which could help find answers to the current crisis, the

Nobel

jury said.

Thomas Sargent and Christopher Sims, both 68, have developed methods that help answer questions "regarding the causal relationship between economic policy and different macroeconomic variables, such as GDP, inflation, employment and investments," the Nobel jury said.

"Their combined work constitutes a solid foundation for modern macroeconomic analysis. It is hard to envisage today's research without this foundation," it added.

Economies are constantly affected by both anticipated events, like long term fiscal policy and shifts in monetary policies, and unanticipated events like sudden hikes in the price of oil or an unexpected drop in household consumption.

The laureates' work in the 1970s and 1980s provides methodologies that facilitate understanding of how both systemic policy shifts and so-called "shocks" affect the macroeconomy in the short and long run.

Sargent worked on structural macroeconomics, used to analyse permanent changes in economic policy, as well as the reciprocal relationship between the expectations of the private sector regarding future policy and actual policy decisions about wages, prices and investments.

"This method can be applied to study macroeconomic relations when households and firms adjust their expectations concurrently with economic developments," the jury said.

Sims has meanwhile focused on "how shocks spread throughout the economy," mapping the

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effects of temporary changes in economic policy, like sudden central bank rate hikes or other unexpected factors.

While the pair worked separately, their work is complementary and "has been adopted by researchers and policymakers around the world," the jury said.

John Hassler, a member of the Nobel Committee at the Royal Swedish Academy of Sciences that attributes the prize, said the pair's methods could be used to understand the current economic crisis.

"We don't really have a good answer to what happened during the financial crisis nor what we should do in order to reduce the risk of something like this happening again, but we are pretty sure that the methods they have developed (can) help us in finding the answers to questions like that," Hassler said.

Sims, interviewed by telephone from the Nobel press conference, also said he hoped his research could be useful for solving the current turmoil.

"If I had a simple answer to that I would have been spreading it around the world. There's no simple way to do it, it requires a lot of slow work looking at data," he said.

"But I think that the methods that I've used and that Tom (Sargent) has developed are central to finding our way out of this mess."

Regarding the 10-million-kronor (\$1.48-million, 1.08-million-euro) prize sum, Sims said he wouldn't invest it on the shaky markets for the time-being.

"First thing I've got to do is just keep it in cash for a while and think," he said.

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Sargent is a professor of economics and business at New York University, while Sims is professor of economics and banking at Princeton University.

The economics prize is the only one of the six Nobels not originally included in the 1895 will of the prize creator, Swedish industrialist Alfred Nobel.

It was created by the Swedish central bank, the Riksbank, in 1968 to commemorate its tricentenary and was first handed out in 1969.

The 10-million-Swedish-kronor prize sum is funded by the Riksbank, unlike the other prizes which are financed by the Nobel Foundation.

The two most-watched prizes, those for literature and peace, were announced last week.

Swedish poet Tomas Tranströmer won the Literature Prize on Thursday, and on Friday the Peace Prize was awarded to Liberian President Ellen Johnson Sirleaf and her compatriot peace activist Leymah Gbowee, as well as Yemeni blogger and activist Tawakkul Karman, in a nod to women's empowerment.

All of the Nobel laureates will receive their prizes at gala ceremonies in Oslo and Stockholm on December 10, the anniversary of the death of Alfred Nobel.