

Department of Economics

The MIT Department of Economics is widely regarded as one of the world's premier centers for economic research and education. Our faculty members balance substantial commitments to training both undergraduate and doctoral students with active and influential research programs. The department is currently engaged in an important capital campaign, the Economics Leadership 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 peers, the MIT Economics Department is very well positioned to play a central role as an innovator in research and as a source of exciting new directions in undergraduate and graduate education.

Highlights of the Year

The 2006–2007 academic year was an exciting one for the Economics Department. Four junior faculty members received tenure, the department celebrated the gift of a new endowed chair, the Undergraduate Economics Association worked actively to raise the department's visibility on campus, and faculty research activity continued at a rapid pace.

Four faculty members who began their careers at MIT received tenure this year. Associate professor George-Marios Angeletos, who specializes in macroeconomic theory; assistant professor Amy Finkelstein (PhD 2001), who works in public economics and health economics; assistant professor Iván Werning, who also works in macroeconomic theory; and Pentti J.K. Kouri career development associate professor Muhamet Yildiz, who works on economic theory, were promoted to the rank of tenured associate professor. These four new members of the senior faculty will make key contributions to the future growth and development of the department.

The department celebrated the creation of a new endowed professorship, the Gregory K. Palm (1970) professorship. Professor Glenn Ellison (PhD 1992), whose research interests span economic theory, industrial organization, and financial economics, is the inaugural chair holder. Another moment of celebration occurred when Professor Jonathan Gruber (SB 1987) was selected as a Margaret MacVicar Faculty Fellow, MIT's highest honor for undergraduate teaching. Professor Gruber will hold the title of MacVicar Fellow for the next 10 years.

Faculty members have carried out research on a wide range of interesting and important questions. The span of this research is illustrated below, with 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.

The MIT Undergraduate Economics Association continued its recent growth in visibility and impact. The association sponsored two public lectures, one by *Freakonomics* author Steve Levitt (PhD 1994) in December 2006 and another by *New York Times* economics columnist David Leonhardt in April 2007. Both lectures were very well attended by undergraduate majors as well as other interested students. Undergraduate economics course enrollments continued their recent upward trend, and they are now approaching the peak levels that were reached in the late 1990s.

The MIT Economics PhD program has long been viewed as one of the best graduate programs, if not the best program, in its field. Faculty members are always seeking ways to improve the curriculum. One notable innovation in the past year was the introduction of a new summer minicourse in computer programming. This course, overseen by assistant professor Panle Jia, was extremely well attended and attracted both faculty and student participation. The course was designed to prepare students for summer research projects, whether directed by faculty or carried out independently.

The Abdul Latif Jameel Poverty Action Lab (JPAL), directed by MIT Economics faculty members Ford International professor Abhijit Banerjee and Abdul Latif Jameel professor of poverty alleviation and development economics Esther Duflo (PhD 1999), is increasingly viewed as one of the leading global institutions for research on poverty alleviation. Queen Rania of Jordan, a global leader in programs to alleviate deprivation and suffering in the developing world, visited JPAL in early May. She was particularly interested in learning about the ongoing JPAL research program. Professor Duflo spoke at the World Economy Forum in Davos, Switzerland, in February 2007, addressing key challenges in raising standards of living in the Third World. JPAL has now opened an office in Chennai, India, to facilitate its research activities on the Indian subcontinent. JPAL is supported through grants from a number of philanthropic foundations, and it is engaged in research projects in many nations in Africa and Asia.

Graduates of the MIT Economics Department have become leaders in the academic, policy-making, and business sectors. The president-elect of the American Economic Association, Avinash Dixit (PhD 1968), and both vice presidents, Rebecca Blank (PhD 1983) and Kenneth Rogoff (PhD 1980), are all MIT graduates. MIT's role in affecting economic policy is illustrated by the five department graduates who currently lead central banks. This year, Athanasios Orphanidies (SB 1985, PhD 1990) was named the governor of the Central Bank of Cyprus. He joins Ben Bernanke (PhD 1979), the Federal Reserve Board chairman; Vittorio Corbo (PhD 1971), the governor of the Bank of Chile; Mario Draghi (PhD 1976), the governor of the Bank of Italy; and Stanley Fischer (PhD 1969), an emeritus member of the MIT faculty and governor of the Bank of Israel. Many other MIT graduates serve in important positions at central banks around the world.

There are many other examples of faculty and students who are engaged in public service. Professor Gruber played a central part in crafting the far-reaching Massachusetts health insurance reform proposal. He is serving on the Commonwealth Health Insurance Connector Authority Board, the governing body that regulates insurance coverage options. Simon Johnson (PhD 1989), the Ronald A. Kurtz professor of entrepreneurship at the Sloan School of Management, has been named the chief economist of the

International Monetary Fund. Tomasso Padoa-Schioppa (SM 1970) was named the finance minister of Italy, and Luis Videgaray Caso (PhD 1998) was named minister of finance for the state of Mexico. Dennis Carlton (MS 1974, PhD 1975), a faculty member at the University of Chicago and a member of the MIT Economics Visiting Committee, has served as deputy assistant attorney general for economic analysis in the Antitrust Division at the Department of Justice. Professors Gruber and Finkelstein are inaugural members of the Congressional Budget Office's Board of Health Advisors. University of Illinois professor Jeffrey Brown (PhD 1999) was recently confirmed by the Senate as a member of the Social Security Advisory Board.

Several faculty members, students, and staff were recognized during the past year for their outstanding service to the Economics Department. Professor Ellison and visiting professor Mathias Dewatripont shared the Graduate Economic Association's Outstanding Teacher Award. Professor Duflo was honored as the outstanding dissertation advisor, and Suman Basu was voted the outstanding graduate teaching assistant. Heikki Rantakari received the Robert M. Solow Prize, an award presented each year to a graduating doctoral student who has excelled in both teaching and research. Professor Gruber received the Undergraduate Economics Association teaching award.

Several members of the MIT Economics Department are serving in important roles at MIT. Elizabeth and James Killian professor Paul Joskow is a member of the Energy Council. Mitsui professor James Poterba serves as a member of the Advisory Committee on Shareholder Relations. Ford International professor Ricardo Caballero is a member of the editorial board of the MIT Press.

There was sad news in early June. E. Cary Brown, MIT Economics Department head from 1965 until 1983 and an expert on taxation and fiscal policy, passed away at the age of 91. A memorial service will be held in the fall of 2007.

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 next few years, with a target of 38 faculty members. Expanding the permanent faculty will enable us to reduce our reliance on 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 is a key step in advancing our long-term plans. This two-year campaign, which will conclude in December 2008, is designed to raise endowment resources for both professorships and fellowships. The campaign has been directed by three members of the Economics Department Visiting Committee: Denis Bovin (SB 1969, management), Don Layton (SB 1972), and Ken Wang (SB 1971). The campaign has generated a wide range of opportunities for alumni contact with the Economics Department. It is likely not only to produce near-term benefits in the form of new department resources, but also to have longer term benefits in strengthening ties between undergraduate and graduate alumni and the department.

Ongoing campus-wide discussions about the structure of the undergraduate program at MIT, prompted by the Task Force on the Undergraduate Educational Commons, are sure to lead to a careful review of our undergraduate offerings in the years ahead. 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 34 nonvisiting Economics Department faculty members in academic year 2007. This number will decline to 33 for the 2007–2008 academic year. The department hired one new assistant professor, Anna Mikusheva, effective July 1, 2007. She received her PhD from Harvard University and specializes in econometrics and econometric theory. The department also hired a second assistant professor, Parag Pathak, but he will not join the faculty until July 2008. In the interim, he will be a junior fellow at the Harvard Society of Fellows.

Two faculty members left MIT this year. Rudi Dornbusch career development associate professor Xavier Gabaix left for a position at New York University, and assistant professor Haluk Ergin accepted a position at Washington University in St. Louis. In addition, Professor Joskow was named the president of the Alfred P. Sloan Foundation. He will assume that post in early 2008.

As noted above, four faculty members (Angeletos, Finkelstein, Werning, and Yildiz) were promoted to the rank of tenured associate professor this year. Assistant professor Stephen Ryan was reappointed. Professor Ellison was named the inaugural holder of the Gregory K. Palm (1970) professorship in economics. Assistant professor Mikhail Golosov was named the Rudi Dornbusch career development assistant professor effective July 1, 2007.

The MIT Economics Department hosted 11 visiting faculty members for all or part of AY2007. Three professors visiting for the entire year participated in central ways in our educational programs. Visiting professor Ernst Fehr taught experimental economics, visiting professor Jean Tirole (PhD 1982) taught a topics course in corporate finance, and visiting professor Dewatripont taught microeconomic theory. Other visitors playing important roles were Francesco Giavazzi (PhD 1978), Pol Antras (PhD 2003), Lorenz Goette, Robert Triest, Garance Genicot, Paul Willen, Graham Elliott, and Jorn Steffen Pischke. 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.

Anna Mikusheva brings the total number of women on the MIT Economics faculty to seven, including four tenured faculty members. The share of women economics faculty at MIT is substantially greater than that at any other leading economics department. We have no members of underrepresented minority groups on the faculty. All search committees are instructed to identify outstanding women and minority candidates as part of the search process.

As part of the regular recruitment process for junior faculty, the department solicited or received 241 curricula vitae. Thirty-seven candidates, including five women, were selected for interviews. We made two offers this year, to Anna Mikusheva and Parag Pathak; both offers were accepted.

Honors and Awards

The department's faculty members received a number of prizes and awards this year. Members were also selected for a number of roles in professional service.

Charles Kindleberger professor Daron Acemoglu was named a fellow of the Society of Labor Economics. He was also elected to the Econometric Society Executive Committee and was awarded the John von Neumann Prize from the Hungarian Economic Association.

Professor Joshua Angrist was granted an honorary doctorate from the University of St. Gallen in Switzerland.

Associate professor David Autor was promoted to the rank of research associate at the National Bureau of Economic Research. He was also appointed to the Board of Editors of the *Journal of Labor Economics* and to the Census Advisory Committee of the American Economic Association. He was the keynote lecturer for the Nordic Summer Institute in Labor Economics in Helsinki, Finland.

Professor Banerjee was an honorary visiting professor at the Institute of Development Studies in Kolkata, India, and was part of the D. Gale Johnson Lecture at the University of Chicago. He also delivered the Institute for Economic Policy Research Distinguished Lecture at the University of Southern California and was awarded the Michael Wallerstein Award from the American Political Science Association.

Class of 1941 professor Olivier Blanchard gave the Van Lanschot lectures in Tilburg and the Mundell Fleming lectures hosted by the International Monetary Fund. He received the Tjalling Koopmans Efact Award and is the founding editor of the *American Economic Journal: Macroeconomics*.

Castle Krob associate professor Victor Chernozhukov was named an international fellow at the Centre for Microdata Methods and Practice, University College London.

Professor Duflo was named one of 10 "Revolutionary Thinkers" by *Forbes* and was chosen as the inaugural editor of the *American Economic Journal: Applied Economics*.

Professor Ellison was elected a fellow of the American Academy of Arts and Sciences.

Professor Finkelstein received an Alfred P. Sloan research fellowship and was appointed to the editorial board of the *American Economic Journal: Economic Policy*.

Professor Golosov received the Distinguished CESifo Affiliate award, which is given to a young economist for the scientific originality, policy relevance, and quality of

exposition of his paper presented at the CESifo Annual Area Conference on Public Sector Economics.

3M professor of environmental economics Michael Greenstone was appointed to the Board of Editors of the *American Economic Journal: Economic Policy* and to the Board of Associate Editors of the *Review of Economics and Statistics*.

Professor Gruber was awarded a Margaret MacVicar Faculty Fellowship at MIT. He is also a gubernatorial appointee to the board of the Commonwealth Health Insurance Connector Authority.

Professor Jeffrey Harris became a member of the Institute of Medicine Committee on Reducing Tobacco Use.

John and Jennie S. MacDonald professor Jerry Hausman was an invited lecturer at the Far East Meetings of the Econometric Society in Beijing, China. He was also the keynote speaker at the 2006 Australian Competition and Consumer Commission conference.

Paul A. Samuelson professor of economics Bengt Holmström presented the Zvi Griliches Distinguished Lectures at the New Economic School in Moscow, Russia. He was elected a foreign member of the Finnish Academy of Sciences and Letters.

Professor Joskow was granted an honorary doctorate from the University of Paris-Dauphine and was named a distinguished fellow by the Industrial Organization Society.

Jane Berkowitz Carlton and Dennis William Carlton professor Whitney Newey was elected a fellow of the American Academy of Arts and Sciences.

David W. Skinner professor Michael Piore was elected president of the Society for the Advancement of Socio-Economics.

Professor Poterba was elected second vice president for the National Tax Association. He also served as chair of the Honors and Awards Committee for the American Economic Association, and he continues his service as an elected trustee for the College Retirement Equity Fund.

Professor Nancy Rose continues to serve as a board member for the Committee on the Status of Women in the Economics Profession.

Professor Ryan received the NET Institute research grant. He was also appointed as a National Bureau of Economic Research (NBER) faculty research fellow in the Industrial Organization program.

Professor Werning received a Sloan Foundation research fellowship. He was also named associate editor of the journal *Theoretical Economics*.

Professor Yildiz was elected a foreign editor of the *Review of Economic Studies* and an associate editor of the *Review of Economic Design and Theoretical Economics*.

Research Achievements

The following selection of publications during the academic year illustrates the scope of the department's research activities. Professor Acemoglu's article "Equilibrium Bias of Technology" is forthcoming in *Econometrica*. Professor Angeletos's article "Efficient Use of Information and Social Value of Information," with A. Pavan, was published in *Econometrica*. Professor Angrist's article "Rural Windfall or New Resource Curse? Coca, Income, and Civil Conflict in Colombia," with A. Kugler, is forthcoming in the *Review of Economics and Statistics*. Professor Autor's article "Will Job Testing Harm Minority Workers? Evidence from the Retail Sector," with D. Scarborough, is forthcoming in the *Quarterly Journal of Economics*. Professor Banerjee's article "The Political Economy of Public Goods: Some Evidence from India," with R. Somanathan, was published in the *Journal of Development Economics*.

Professor Blanchard's article "Real Rigidities and the New Keynesian Model," with J. Galí, was published in the *Journal of Money, Credit, and Banking*. Professor Caballero's book *Specificity and the Macroeconomics of Restructuring* was published by the MIT Press. Professor Chernozhukov's article "Inference on Parameter Sets in Econometric Models," with H. Hong and E. Tamer, is forthcoming in *Econometrica*. Professor Dora Costa's article "The Benefits of Social Networks in POW Camps," with M. Kahn, is forthcoming in the *American Economic Review*. Professor Duflo's article "Dams," with R. Pande, was published in the *Quarterly Journal of Economics*. Professor Ellison's article "Bounded Rationality in Industrial Organizations" was published in *Advances in Economics and Econometrics, Theory and Applications* (R. Blundell, W. Newey, and T. Persson, eds.), a collection of papers from the Ninth World Congress of the Econometric Society.

Senior lecturer Sara Ellison's article "Coordinating on Lower Prices: Pharmaceutical Pricing Under Political Pressure," with C. Wolfram, was published in the *RAND Journal of Economics*. Professor Finkelstein's article "The Aggregate Effects of Health Insurance: Evidence from the Introduction of Medicare" was published in the *Quarterly Journal of Economics*. Professor Golosov's article "Designing Optimal Taxation with Endogenous Insurance Markets," with A. Tsyvinski, was published in the *Quarterly Journal of Economics*. Professor Greenstone's article "The Economic Impacts of Climate Change: Evidence from Agricultural Output and Random Fluctuations in Weather," with O. Deschenes, was published in the *American Economic Review*. Professor Gruber's article "Moral Hazard in Nursing Home Use," with D. Grabowski, was published in the *Journal of Health Economics*.

Professor Hausman's article "Real Options and Patent Damages: The Legal Treatment of Non-Infringing Alternatives and Incentives to Innovate," with G. Leonard, was published in the *Journal of Economic Surveys*. Professor Joskow's article "Reliability and Competitive Electric Markets," with J. Tirole, is forthcoming in the *RAND Journal of Economics*. Professor Newey's article "Instrumental Variable Identification and Estimation of Nonseparable Models," with V. Chernozhukov and G. Imbens, was published in the *Journal of Econometrics*. Professor Piore's article "Changing Regimes

of Workplace Governance, Shifting Axes of Social Mobilization and the Challenge to Industrial Relations Theory,” with S. Safford, was published in *Industrial Relations*. Professor Poterba’s article “What Does Performance in Graduate School Predict? Graduate Economics Education and Student Outcomes,” with S. Athey, L. Katz, A. Krueger, and S. Levitt, was published in the *American Economic Review*.

Professor Rose’s article “Do Markets Reduce Costs? Assessing the Impact of Regulatory Restructuring on US Electric Generation Efficiency,” with K. Fabrizio and C. Wolfram, is forthcoming in the *American Economic Review*. Professor Ryan’s article “Linear Regression Estimation of Discrete Choice Models with Nonparametric Distributions of Random Coefficients,” with P. Bajari and J. Fox, was published in the *American Economic Review*. Elisha Gray II professor Peter Temin’s article “Banking as an Emerging Technology: Hoare’s Bank 1702–1742,” with J. Voth, was published in the *Financial History Review*. Professor Werning’s article “New Dynamic Public Finance: A User’s Guide,” with M. Golosov and A. Tsyvinski, was published in the *NBER Macroeconomics Annual 2006*. 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 published in the *Review of Economic Studies*.

James M. Poterba
Department Head
Mitsui Professor

More information about the Department of Economics, including photos of recent department events, can be found at <http://econ-www.mit.edu/>.