

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 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 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 2007–2008 academic year was an exciting one for the Economics Department, with important faculty additions at both the senior and junior levels. Robert Townsend, one of the nation's leading theorists and an expert in development economics, joined our faculty from the University of Chicago. He will be the Killian professor of economics. Benjamin Olken, a new associate professor, is one of the young leaders in the field of development economics. He has done pathbreaking work on the economics of corruption. Together with our outstanding existing development economics faculty, these senior faculty hires make MIT an extraordinary place to study this important field.

At the junior level, our department added two new assistant professors. The first is Parag Pathak, who received his PhD from Harvard University in 2007 and spent the past year at Harvard's prestigious Society of Fellows. Parag is an economic theorist with wide-ranging interests in market design. The second is Arnaud Costinot, who obtained his PhD from Princeton University in 2005 and has since been a junior faculty member at the University of California, San Diego. Arnaud works on international trade theory.

Our department was fortunate to be able to promote five faculty members to full professor during the 2007–2008 academic year: Marios Angeletos, David Autor, Victor Chernozhukov, Amy Finkelstein (PhD 2001), and Iván Werning. Josh Angrist was named the holder of the Ford professorship of economics. Anna Mikusheva was appointed as Castle Krob career development chair, Guido Lorenzoni was awarded the Pentti J.K. Kouri career development assistant professorship, and Stephen Ryan was named the holder of the Silverman (1968) Family career development assistant professorship. Peter Temin (PhD 1964), who has been on the MIT faculty for over 40 years, retired from graduate teaching. He will continue his research on economic history and teach an undergraduate economic history course. Dora Costa, an economic historian who has been on our faculty since 1993, accepted a professorship at the University of California, Los Angeles. Sergei Izmalkov, an economic theorist, has accepted a position at the New Economic School in Moscow.

There were also major new appointments for some of our senior faculty members. Paul Joskow was named the president of the Alfred P. Sloan Foundation, one of the nation's leading foundations with a special focus on research issues in science, technology, and business. He is currently on leave from MIT. Olivier Blanchard (PhD 1977) was named chief economist of the International Monetary Fund, a post that a number of other MIT graduates have held, including Stanley Fischer (PhD 1969) and Simon Johnson (PhD 1989). Olivier is also on leave. Jim Poterba was named president of the National Bureau of Economic Research (NBER), the leading economics research institution in the world. Jim assumed his NBER post on July 1, 2008, and he will step down as Economics Department head on August 31, 2008. He will remain on the MIT faculty with a reduced-time position. Macroeconomist Ricardo Caballero will succeed Jim as department head. Glenn Ellison will succeed Jonathan Gruber as associate head.

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 to be a fertile ground for rounding out the economics education of our undergraduate students. The association sponsored two public lectures. The first was by Federal Reserve Board member Fredric Mishkin (SB 1973, PhD 1976) in October 2007. Governor Mishkin spoke on transparency in Federal Reserve Board policy making. The second lecture was by Harrah's Entertainment CEO Gary Loveman (PhD 1989) in March 2008. He described the role of economics in the gaming industry. Both lectures were very well attended by undergraduate majors as well as other interested students. Undergraduate economics course enrollments trended upward in the past year, extending a recent pattern.

The Jameel Poverty Action Lab (JPAL), directed by Ford International professor Abhijit Banerjee and Abdul Latif Jameel professor of poverty alleviation and development economics Esther Duflo (PhD 1999), expanded the scope and influence of its research. JPAL is widely recognized as one of the leading global institutions for research on poverty alleviation. Narayana Murthy, founder of Infosys, spoke at the opening of JPAL's South Asia office at the Institute for Financial Management and Research in Chennai, India, in July 2007. As part of its mission to promote effective antipoverty policies, JPAL organized an event at the World Economic Forum in Davos to support a global deworming program. Researchers from across Europe are now affiliated with JPAL through the lab's new office at the Paris School of Economics.

MIT faculty and graduates continue to play an important role in both the profession and the world at large. Avinash Dixit (PhD 1968) is the president of the American Economic Association (AEA), and Robert Hall (PhD 1967) is the president-elect. Maurice Obstfeld (PhD 1979) was elected a vice president of the AEA, and Jan Eberly (PhD 1991) was elected to the AEA's executive committee. Faculty member Jonathan Gruber (SB 1987)

and department graduates Michael Whinston (PhD 1984) and Jeremy Stein (PhD 1986) were elected fellows of the American Academy of Arts and Sciences.

MIT Economics maintains its position as a fertile training ground for central bankers. In Chile, Vittorio Corbo (PhD 1971) was succeeded as governor of the Bank of Chile by Jose DeGregorio (PhD 1979). Jose joins Federal Reserve Board chairman Ben Bernanke (PhD 1979), Mario Draghi (PhD 1976), the governor of the Bank of Italy, Stanley Fischer (PhD 1969), an emeritus member of the MIT faculty and governor of the Bank of Israel, and Athanasios Orphanidies (SB 1985, PhD 1990), the governor of the Central Bank of Cyprus, all of whom are MIT-trained central bankers. Many other MIT graduates serve in important policy positions at central banks, finance ministries, and economic advisory agencies around the world. Tommaso Padoa-Schioppa (SM 1970) is the finance minister of Italy; Luis Videgaray Caso (PhD 1998) is the minister of finance for the state of Mexico; Charles Bean (PhD 1981) is the deputy governor of the Bank of England; and Donald Marron (PhD 1994) is a member of the US Council of Economic Advisers.

There are many other examples of faculty and students who are engaged in public service. Jonathan Gruber is serving on the Commonwealth Health Insurance Connector Authority Board, the governing body that regulates insurance coverage options. He and Professor Amy Finkelstein (PhD 2001) are inaugural members of the Congressional Budget Office's Panel of Health Advisers. Dennis Carlton (SM 1974, PhD 1975), a faculty member at the University of Chicago and a member of the MIT Economics Visiting Committee, completed his service as deputy assistant attorney general for economic analysis in the Antitrust Division at the Department of Justice. University of Illinois professor Jeffrey Brown (PhD 1999) was confirmed 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. Glenn Ellison and Anna Mikusheva shared the Graduate Economic Association's Outstanding Teacher Award. Esther Duflo was honored as the outstanding dissertation advisor, and Alp Simsek and José Tessada were voted the outstanding graduate teaching assistants. Greg Fischer 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 Teaching Award was presented to Joshua Angrist, and the Undergraduate Economics Association Teaching Assistant Award was given to Josh's teaching assistant, Tal Gross. Peter Hoagland won the Positive Energy Infinite Mile Award from the School of Humanities, Arts, and Social Sciences.

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 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 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 several members of the Economics Department Visiting Committee: Denis Bovin (SB 1969), Donald Layton (SB 1972), and Kenneth 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 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 37 nonvisiting Economics Department faculty members in academic year 2007–2008. This number will increase to 39 for the 2008–2009 academic year. The department hired one new professor, Robert Townsend, one new associate professor, Benjamin Olken, and two new assistant professors, Parag Pathak and Arnaud Costinot. Two faculty members left: Professor Dora Costa and assistant professor Sergei Izmalkov. As noted above, five faculty members (Angeletos, Autor, Chernozhukov, Finkelstein, and Werning) were promoted to the rank of full professor. Assistant professor Panle Jia was reappointed. Professor Angrist was named to the Ford chair. Assistant professor Anna Mishukeva was named the Castle Krob career development assistant professor beginning July 1, 2008. Guido Lorenzoni and Stephen Ryan were named the Pentti J.K. Kouri career development assistant professor and the Silverman (1968) Family career development assistant professor, respectively.

The MIT Economics Department hosted 11 visiting faculty members for all or part of AY2008. 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 Mathias Dewatripont taught microeconomic theory. Other visitors playing important roles were Francesco Giavazzi (PhD 1978), Lorenz Goette, Robert Triest, Paul Willen, Marc Rysman, Yuliy Sannikov, Robert Townsend, and Kiminori Matsuyama. 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 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 the search process.

As part of the regular recruitment process for junior faculty, the department solicited or received 275 curricula vitae. Thirty-three candidates, including five women, were selected for interviews. We made no offers this year to new PhD candidates, but we offered an assistant professorship to Arnaud Costinot, who received his PhD from Princeton in 2005 and was teaching at the University of California, San Diego. He accepted our offer.

Honors and Awards

The department's 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 won two contemporaneous awards for his pathbreaking work in political economy, the Woodrow Wilson Foundation Award and the Heinz Eulau Award. He also received an honorary doctorate from the University of Utrecht.

Professor George-Marios Angeletos won the Bodossaki Foundation Prize in Social-Economic Science; this prize, one of the highest academic honors in Greece, is awarded to a scholar under the age of 40 who has made outstanding contributions to his or her discipline.

Professor David Autor received the 2008 Sherwin Rosen prize from the Society of Labor Economics, awarded to the best young labor economist in the country. He was also named the new editor of the *Journal of Economic Perspectives*.

Ford International professor of economics Abhijit Banerjee was named an international research fellow at the Kiel Institute and gave the Albert Hirschman Lecture at the meeting of the Latin American and Caribbean Economic Association.

Class of 1941 professor Olivier Blanchard (PhD 1977) was named a chevalier in France's Order National de la Legion d'Honneur, one of France's highest civilian honors. He also gave the Eyskens lectures in Brussels and the Rafael de Pino Lecture in Madrid.

Institute Professor and professor of economics Peter Diamond (PhD 1963) received the Robert M. Ball award from the National Academy of Social Insurance for outstanding contributions to social insurance research and policy.

Abdul Latif Jameel professor of poverty alleviation and development economics Esther Duflo was named the inaugural holder of the "Knowledge Against Poverty" chair at the Collège de France. She was also named one of the top 100 public intellectuals in the world by *Progress* magazine.

Gregory K. Palm professor Glenn Ellison (PhD 1992) won the MIT Graduate Economics Association Teacher of the Year Award.

Professor Amy Finkelstein was elected to the National Academy of Social Insurance and became a coeditor of the *Journal of Public Economics*.

Rudi Dornbusch career development associate professor Mikhail Golosov received both a Sloan Foundation research fellowship and a National Science Foundation CAREER award, which supports “those teacher-scholars who most effectively integrate research and education within the context of the mission of their organization.”

3M professor of environmental economics Michael Greenstone was appointed a nonresident senior fellow at the Brookings Institution.

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

Professor Jeffrey Harris delivered the keynote address at the Spanish Health Economics Association meetings and was made an honorary citizen of the city of Salamanca, Spain.

Paul A. Samuelson professor Bengt Holmstrom gave the W.A. MacKintosh Lecture at Queen’s University and was named the Finnish expatriate of the year by the Finnish Society.

Assistant professor Panle Jia won the Tufts Graduate and Undergraduate Economics Alumni Achievement Award and the Zellner Award for Best Dissertation in Business and Economics Statistics from the American Statistical Association.

Mitsui professor James Poterba was elected vice president of the National Tax Association and president and chief executive officer of the National Bureau of Economic Research. He delivered a plenary address at the annual meeting of the Society of Economic Dynamics, held at MIT in July 2008.

Professor Nancy Rose (PhD 1985) continued her service as a board member of the AEA Committee on the Status of Women in the Economics Profession.

Franco Modigliani professor of finance and economics Stephen Ross received the Jean-Jacques Laffont Prize, which honors an economist whose work combines both the theoretical and applied aspects of economics.

Jean Tirole received the Medaille d’Or from the National Center for Scientific Research in France, the country’s highest scientific award.

Professor Muhamet Yildiz was named associate editor of the *Journal of 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 book *Introduction to Modern Economic Growth* (Princeton University Press) is forthcoming in December of 2008, and he published "Persistence of Elites, Power and Institutions," with J. Robinson, in the *American Economic Review*. Professor Angeletos' article "Efficient Use of Information and Social Value of Information," with A. Pavan, was published in *Econometrica*. Professor Angrist published *Mostly Harmless Econometrics: An Empiricist's Companion*, written with S. Pischke, and his article "Incentives and Services for College Achievement: Evidence from a Randomized Trial" is forthcoming in the *American Economic Journal: Applied Economics*. Professor Autor's article "Trends in U.S. Wage Inequality: Re-Assessing the Revisionists," with L.F. Katz and M. Schettini Kearney, is forthcoming in the *Review of Economic Statistics*. Professor Banerjee's book *Making Aid Work* was published this year, along with his article "The Political Economy of Public Goods: Some Evidence From India," with R. Pande, in the *Journal of Development Economics*.

The fifth edition of Professor Blanchard's book *Macroeconomics* was published, along with his article "The Joint Design of Labor Market Institutions: A First Pass," with J. Tirole, in the *Journal of the European Economic Association*. Professor Caballero's article "Zombie Lending and Depressed Restructuring in Japan," with T. Hoshi and A. Kashyap, is forthcoming in the *American Economic Review*. Professor Chernozhukov's article "Inference on Parameter Sets in Econometric Models," with H. Hong and E. Tamer, is forthcoming in *Econometrica*. Professor Duflo's article "Remedying Education: Evidence from Two Randomized Experiments in India," with several coauthors, was published in the *Quarterly Journal of Economics*. Professor Ellison's article "Location Choice in Two-Sided Markets with Indivisible Agents," with R. Anderson and D. Fudenberg, is forthcoming in *Games and Economic Behavior*. Professor Finkelstein's article "The Interaction of Public and Private Insurance: Medicaid and the Long-Term Care Insurance Market," with J. Brown, was published in the *American Economic Review*. Professor Golosov's article "Political Economy of Mechanisms," with D. Acemoglu and A. Tsyvinski, was published in *Econometrica*.

Professor Greenstone's article "Does Hazardous Waste Matter? Evidence from the Housing Market and the Superfund Program," with J. Gallagher, is forthcoming in the *Quarterly Journal of Economics*. Professor Gruber's article "The Church vs. The Mall: What Happens When Religion Faces Increased Secular Competition?" with D. Hungerman, was published in the *Quarterly Journal of Economics*. Professor Harris' article "Optimizing Resource Allocation for HIV/AIDS Prevention Programs: An Analytical Framework" was accepted for publication in *AIDS*. Professor Jerry Hausman's article "A Reduced Bias GMM-like Estimator with Reduced Estimator Dispersion," with several coauthors, is forthcoming in the *Journal of Econometrics*. Professor Jia's article "What Happens When Wal-Mart Comes to Town: An Empirical Analysis of the Discount Industry" is forthcoming in *Econometrica*. Professor Holmstrom published his series of Wicksell Lectures, *Inside and Outside Liquidity*. Professor Joskow's article "Retail Electricity Competition," with J. Tirole, was published in the *RAND Journal of Economics*. Professor Guido Lorenzoni's article "Inefficient Credit Booms" was published in the *Review of Economic Studies*.

Professor Mikusheva's article "Uniform Inference in Autoregressive Models" was published in *Econometrica*. Professor Whitney Newey's article "GMM Estimation with Many Weak Moment Conditions," with F. Windmeijer, is forthcoming in *Econometrica*. Professor Poterba's article "Tax Expenditures for Owner-Occupied Housing: Deductions for Property Taxes and Mortgage Interest and Exclusion of Imputed Rental Income," with T. Sinai, was published in the *American Economic Review*. Professor Rose's article "Do Markets Reduce Costs? Assessing the Impact of Regulatory Restructuring on U.S. Electric Generation Efficiency," with K. Fabrizio and C. Wolfram, was published in the *American Economic Review*. Professor Ryan's article "Linear Regression Estimation of Discrete Choice Models with Nonparametric Distribution of Random Coefficients," with P. Bajari and J. Fox, was published in the *American Economic Review*. Professor Temin published two books: *The World Economy Between the Wars*, with C. Feinstein and G. Toniolo, and *Reasonable Rx: How to Lower Drug Prices*, with S. Finkelstein. Professor William Wheaton's article "The 1998–2005 Housing 'Bubble' and the Current 'Correction': What's Different This Time?" was published in the *Journal of Real Estate Research*. Professor Yildiz's article "A Structure Theorem for Rationalizability with Application to Robust Predictions of Refinements," with J. Weinstein, was published in *Econometrica*.

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/>.