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And the Nobel goes to...

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THE Nobel Prize for Economic Science has now been awarded (http://nobelprize.org/nobel_prizes/economics/laureates/2010/) , to three academics for their "analysis of markets with search frictions". Peter Diamond is an American economist currently at MIT. He has written extensively on efficiency across generations and on optimal taxation, and in an applied fashion on issues related to social security programmes. He is being recognised, however, for his work on labour market search. His work on labour markets includes a classic paper on the Beveridge curve, which is often cited as evidence for structural unemployment. Mr Diamond made recent headlines when Barack Obama nominated him to the Federal Reserve Board. His nomination was returned to the president without a vote. This award may prove embarrassing for Mr Diamond's Congressional critics, who refused his approval to the Fed position based on concerns (http://krugman.blogs.nytimes.com/2010/08/06/peter-diamond-macro-maven/) about his competence.

Dale Mortensen is also an American economist, currently at Northwestern University. His work includes the investigation of the process of search and matching in labour markets, including the potential for frictional unemployment. Among his co-authors was Christopher Pissarides, a British-Cypriot economist currently at the London School of Economics and the third winner of this year's prize.

The award is an interesting one in terms of timing, given the intense debate over present unemployment and its sources. The winners investigated ways in which labour market dynamics can produce different levels of unemployment, and in particular how high unemployment can persist. They explored the gradations between "cyclical" and "structural" unemployment, and the conditions under which one or the other arises or gives way to the other. Important to the work is the extent to which unemployment can emerge without recourse, within models, to assumptions about market imperfections.

This is obviously a matter of serious concern at the present. Debate has simmered, particularly in America, over the extent to which unemployment is cyclical—rooted in demand shortfalls—or structural—arising from the asymmetric impact of a demand shock or labour market frictions or some combination of the two.

Further, most economists, including those who embrace a demand-side explanation for unemployment, agree that long-term cyclical unemployment can become structural in nature. The dynamics of this process, as informed by the work of the winners, are of great importance.

You can read Wikipedia profiles of the winners here (http://en.wikipedia.org/wiki/Peter_A._Diamond) , here (http://en.wikipedia.org/wiki/Dale_Mortensen) , and here (http://en.wikipedia.org/wiki/Christopher_Pissarides) . Economist Tyler Cowen is collecting excerpts from their important works here (http://www.marginalrevolution.com

/marginalrevolution/2010/10/peter-a-diamond.html) , here (http://www.marginalrevolution.com/marginalrevolution/2010/10/dale-t-mortensen.html) , and here (http://www.marginalrevolution.com/marginalrevolution/2010/10/christopher-a-pissarides.html) .