Jobs trio share Nobel for economics

By Martin Sandbu
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Christopher Pissarides, Peter Diamond and Dale Mortensen

As the world struggles to sustain a fragile economic recovery, the Nobel Prize for economics was awarded on Monday to three researchers whose work explains how market frictions can hinder the smooth functioning of an economy and its ability to adjust to shocks.

Their work, which shows how markets can sometimes lead to inefficient outcomes, has influenced economists' understanding of unemployment.

One of the laureates, **Peter Diamond,** is a nominee for the board of the Federal Reserve. His original nomination by President Barack Obama in April was endorsed by the Senate's banking committee but the full Senate failed to keep the nomination alive over the summer recess.

Richard Shelby, Republican senator from Alabama and ranking member of the Senate banking committee, questioned Mr Diamond's monetary policy qualifications during confirmation hearings in July.

While Mr Shelby said Mr Diamond was "a skilled economist", he added: "I do not believe that the current environment of uncertainty would benefit from monetary policy decisions made by board members who are learning on the job."

The White House on Monday called on the Senate to confirm Mr Diamond as Federal Reserve board member

The economics profession's greatest accolade was bestowed on Mr Diamond and his fellow laureates, Dale Mortensen and Christopher Pissarides, for fundamental contributions to understanding how supply and demand are matched when there are transactions or search costs involved.

Their "search and matching" theories show that it is not enough to have buyers and sellers who can in principle agree on a price; those buyers and sellers must also find each other and decide to enter into a transaction rather than hold out for a better match. In some settings, such as public financial trading platforms, buyers and sellers may be matched instantaneously. But in many other markets, transactions happen only after a search process that can be costly and lengthy.

The laureates' research has shown that this makes possible market outcomes in which supply and demand are matched inefficiently or not at all. In such cases, government intervention may improve on what the market alone achieves.

Since the first models were published in the 1970s, these insights

WINNING TRIO

Christopher Pissarides

- Bachelor's and master's degrees in economics from the UK University of Essex and a doctorate from the London School of Economics in 1973
- An LSE professor since 1986
- Research fellow at the Centre for Economic Policy Research in London and the Institute for the Study of Labor in Bonn, Germany
- Member of the monetary

have grown into a large body of academic literature. They have been applied to a wide range of transaction types, including housing markets, over-the-counter financial products and even marriage choices. But the most important application has focused on labour markets.

"Frictions" in matching workers and jobs – including transaction costs, search times and the difficulty of knowing how a job or a worker will turn out – mean that labour market outcomes can be inefficient. In particular, the market may produce outcomes in which unemployment persists even though there are workers willing to labour for a wage employers are willing to pay.

This research has helped sharpen economists' analysis of the causes of unemployment and of how governments can help reduce it. Christine Lagarde, France's finance minister, hailed the award, saying the prizewinners' research inspired Paris to merge its benefit agency and job centres into a one-stop shop for the unemployed.

The practical importance of the laureates' work is borne out by high unemployment rates after the crisis. In the US, for example, **many of the unemployed used to work in construction** . Search and matching costs are important factors in how fast they will find jobs in other sectors.

Mr Diamond and Mr Mortensen, both American, teach at the Massachusetts Institute of Technology and at Northwestern University, respectively. Mr Pissarides, a Cypriot, works at the London School of Economics and Political Science.

policy committee of Central Bank of Cyprus

Peter Diamond

- Studied maths at Yale University in the US
- Received his doctorate at Massachusetts Institute of Technology in 1963
- Joined the MIT faculty in 1966
- Headed the MIT economics department in 1985 and 1986
- Was named an institute professor, the MIT's highest honour, in 1997

Dale Mortensen

- Received an economics degree from Willamette University in Salem, Oregon, US, in 1961
- PhD in economics from Carnegie-Mellon University, Pittsburgh, in 1967
- Member of faculty at Illinois-based Northwestern University since 1965
- Has served as visiting professor at University of Essex in the UK, Hebrew University in Israel and Cornell University in the US