



Emanuel School

Nobel Prize Winners A look through five years...

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In order to understand the challenges facing the world we live in, it is crucial to comprehend the models that propel advances in modern economic thinking.

In our macroeconomics class, we broadened our insights of applied economics by diving into the recent work of several economists who have significantly contributed to radical changes in economic theory. We researched and discussed the Economics Nobel Prizes from 2015 to the most recent one in 2020. This gave us a real insight into current economic debates and how economics is trying to tackle issues ranging from poverty to climate change.

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2015 Angus Deaton



Sir Angus Deaton is a British-American Economist and academic, born in Edinburgh 1945.

Awarded his Noble Prize in 2015 on his '**Analysis of consumption, poverty and welfare**'.

Aiming to transform the fields of microeconomics, macroeconomics and developing economies by linking detailed individual choices and aggregate outcomes.

Angus Deaton's work is truly fascinating as he explores the variety of different incomes throughout all households in an economy, weighing up how consumers distribute their spending among different goods. He focuses his work around the idea of fluctuating incomes, and in relation to that, how policy reforms affect the welfare of different groups.

He looks at the world from a different angle, by understanding how individuals adapt their own consumption to their own individual income and how this is key in order to untangle the patterns we see in aggregate data. As a result of Deaton, this approach has become widely adopted in modern macroeconomics.

In my opinion, the work that Deaton has created is vitally important in playing a role of accelerating future development, being driven by the social welfare of a country, Deaton has enabled the shift in economists away from the behaviour of economy-wide aggregates, such as Gross Domestic Product, and toward the analysis of individual households.

2016 Oliver Hart and Bengt Holmstrom

Bengt Holmstrom – Finnish
Oliver Hart – British American



Oliver Hart and Bengt Holmstrom were awarded the Noble Prize in Economic Sciences in 2016, **'For Their Contributions to Contract Theory'**.

Modern economies are held together by numerable contracts, and due to the new

theoretical tools created by Hart and Holmstrom, the understanding of real-life contracts and institutions are becoming even more evident.

The development of **'contract theory'** is a framework for analysing many diverse issues in contract design, reducing the significance of the 'potential pitfalls.'

Both Hart and Holmstrom introduced innovation into the economy by proving that the best type of contract provided the right balance of risk and incentive, accelerating the productivity of companies worldwide, as performance-based pay was introduced along with the privatisation of public-sector activities, accelerating the profit motivation idea.

The reason why Hart and Holmstrom's contribution to contract theory was, and is, so highly honoured is due their work of optimal contractual arrangements lying an intellectual foundation for designing policies and institutions. It is thanks to the both of them that companies are as productive as they are today as these men have focused on drawing together contracts that are best suited, in order to maximise productivity and efficiency by planning the future turnover and how it is to be distributed amongst the workers.

2017 Richard H. Thaler



Richard Thaler is an American economist, born in September 1945, New Jersey. In 2017 he was awarded the Noble Prize **'for his contributions to behavioural economics'**.

Thaler incorporated psychologically realistic assumptions into analyses of economic decision-making, exploring how individual decisions effect market outcomes through three key consequences of *Limited Rationality*, *Social preferences* and a *lack of self- control*.

Thaler broadened the study of economics as he focused on psychological traits, enabling the growing awareness around the idea of how economies are driven through the narrow impact of choices made rather than the overall effect that they create. The 'nudge' theory was developed to complement the idea of

lack of self-control, in order to improve the narrow impacts that individuals make, for instance when they start saving for a pension.

I find Thaler's work particularly interesting as it allows companies to be guided in order to achieve their full potential through a simple alter to a contract, stating a particular point that may not be chosen otherwise, in order to grow a firm's efficiency.

2018 William D Nordhaus and Paul M Romer



In 2018 both William Nordhaus and Paul Romer were awarded the Nobel Prize for their new integration of 'Climate Change' and 'Technological Innovations.'

Nordhaus' determination of trying to persuade Government's to address climate change for the past 4 decades won him the Nobel Prize. He wanted

governments to impose taxes on carbon emissions in order to try and prevent climate change. He made the understanding of how economic growth and climate change are closely linked much easier to comprehend through his creation of the DICE model, representing the costs of climate change to the economy.

I find Nordhaus' work intriguing and extremely relevant as the issue of climate change dominates the world we live in.

Paul Romer's work focused around the concept of technological innovations and how the investment in human capital and knowledge is the key driver of economic growth in all economies. He captures how economic forces govern the willingness of firms to produce new ideas and innovations.

2019 Abhijit Banerjee, Esther Duflo and Michael Kremer



In 2019 these three economists won the Nobel Prize ‘for their experimental approach to alleviating global poverty’.

They won their prize for development economics which is a macroeconomic topic. They aimed to break down poverty by conducting lots of experiments and studies. Essentially, they were trying to find the underlying issue of poverty and reduce it. They looked into how the determination of the types of firms that are created are decided by the individuals and how they choose to spend their money, consumption drives the firms choices. They used behavioural economics to see what and why consumers spend the way they do, indicating the level of development of an economy and therefore the amount of poverty within. They created a model stating that an economy that started poor will be likely to stay poor, as there aren't people able to afford to start up a firm, therefore preventing any new job innovations.

This Nobel prize is particularly interesting as global poverty is extremely evident in our day to day lives, and in my opinion addressing this issue is vitally important in order to achieve future economic development and global equality of opportunity.

2020 Paul Milgrom and Robert Wilson



The most recent Nobel Prize was awarded to both Paul Milgrom and Robert Wilson on their study **'for improvements to auction theory and inventions of new auction format'**.

The Nobel Prize was awarded as a result of developing the understanding of outcomes from auctions. This process was difficult as bidders behave strategically as they know themselves and what they believe other bidders to know. The overall idea was to create a new format which allowed goods and services that are difficult to be sold in a traditional way to be auctioned off more easily.

Robert Wilson and Paul Milgrom's work enabled all consumers to be able to purchase goods and services at the same price, known as the 'common value' and additionally provided an altering 'private value' which was the benefit received from an individual bidder that consumed the item. These men have adapted auctioning to the smaller societal benefit rather than the maximal revenue.

This work has encouraged a greater overall revenue received as the seller is able to expect greater revenue from certain bidding strategies, making the efficiency and success of certain firms much greater. This will be especially important in the future as governments need to raise revenues following expansionary fiscal policy during the pandemic.