

## THE 2005 NOBEL PRIZE IN ECONOMICS

Dear All:

The Nobel prize for economic sciences for 2005 will be announce on Monday, October 10, 2005.

I take a personal enjoyment in guessing who might win the Nobel prize each year. I also enjoy reminding people of the Nobel in economics, since it's great to recognize significant achievement in any endeavor.

In previous years, I felt that I had a pretty good idea of who would win, however this year I am actually quite confused. Nevertheless, I will take you through my predictions for this year and years to come.

I believe that the Nobel committee will look to give the Nobel prize in one of the following categories: PUBLIC FINANCE, LABOR, or FINANCE.

I am tempted to choose WELFARE, but I really can't think of any great contributions or economists in that area, so I will drop that category. My next thought is that they should award it to LABOR, since the last few years have resulted in some significant shifts in the labor market, particularly in terms of employment. I also think INTERNATIONAL could win it, because of the significant developments worldwide with India and China's growth and its relation to trade. Finally, I don't think FINANCE is a big issue of the day, but I think there are some pretty strong candidates in that area. And then there's the outcast---THEORY---which hasn't seen any recognition in quite awhile, but really isn't an issue of the day either.

So what have I really said? Nothing. In fact, my variety of categories suggests that I am rather confused as to whom will win. My selection in order of preference is listed below.

### FOR THIS YEAR

1. [PUBLIC FINANCE: P. Diamond and M. Feldstein.  
Both of these men have written a considerable amount on social security, which is a main issue around the world, and hence may be on the Swedish committee's mind. And of course, in 2001, Diamond wrote a paper with the title "Social Security with a Special Focus on the Netherlands".  
Some further comments. You might say why not Auerbach as well. Firstly, he's too young.]
2. [LABOR: Ed Phelps and Mincer (maybe), Ashenfelter (maybe)]

3. [FINANCE: S. Ross (for inventing the APT & Binomial) & Eugene Fama (for empirical testing of APT & the efficient markets hypothesis)---*Note*: I purposely left out French, since he was just a co-author in a famous Fama paper, and if he got it, one could argue that Roll should get it too for the work with Ross. I have a superstitious reason to think this might happen this year, but it's not based on logic, so I have left this choice in the #3 spot.]

### FOR FUTURE YEARS

4. [CONTRACT THEORY: O. Hart and P. Milgrom]

5. [INDUSTRIAL ORG: Baumol (contestability)]

6. [ECONOMETRICS: J. Hausman and H. White. *Note*: They could consider giving it to Hausman for Public Finance with the other guys above, but that's not really how it should be given to him.]

7. [MACROECONOMICS: Paul Romer (theory) & Robert Barro (empirical testing). *Note*: Barro could be given for his government taxes and rational expectations, but I don't think that is enough to get it. He'll need a side entry or he won't get it at all. I also don't believe Romer will get it alone, thus, perhaps they will add people who tested the endogenous growth theories.]

8. [INTERNATIONAL: Bhagwati, Dixit, and Krugman (?)]

If anyone wishes to send their guesses to me, please do so!

Enjoy!

Ludwig