

The Prize in Economic Sciences 2010

The Royal Swedish Academy of Sciences has decided to award the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel for 2010 to

Peter A. Diamond

Massachusetts Institute of Technology,
Cambridge, MA, USA,

Dale T. Mortensen and

Northwestern University,
Evanston, IL, USA and Aarhus
University, Denmark

Christopher A. Pissarides

London School of Economics
and Political Science, UK

“for their analysis of markets with search frictions”.

Markets with search costs

Why are so many people unemployed at the same time that there are a large number of job openings? How can economic policy affect unemployment? This year's Laureates have developed a theory which can be used to answer these questions. This theory is also applicable to markets other than the labor market.

On many markets, buyers and sellers do not always make contact with one another immediately. This concerns, for example, employers who are looking for employees and workers who are trying to find jobs. Since the search process requires time and resources, it creates frictions in the market. On such search markets, the demands of some buyers will not be met, while some sellers cannot sell as much as they would wish. Simultaneously, there are both job vacancies and unemployment on the labor market.

This year's three Laureates have formulated a theoretical framework for search markets. **Peter Diamond** has analyzed the foundations of search markets. **Dale Mortensen** and **Christopher Pissarides** have expanded the theory and have applied it to the labor market. The Laureates' models help us understand the ways in which unemployment, job vacancies, and wages are affected by regulation and economic policy. This may refer to benefit levels in unemployment insurance or rules in regard to hiring and firing. One conclusion is that more generous unemployment benefits give rise to higher unemployment and longer search times.

Search theory has been applied to many other areas in addition to the labor market. This includes, in particular, the housing market. The number of homes for sale varies over time, as does the time it takes for a house to find a buyer and the parties to agree on the price. Search theory has also been used to study questions related to monetary theory, public economics, financial economics, regional economics, and family economics.

Peter A. Diamond, US citizen. Born 1940 in New York City, NY, USA. Ph.D. 1963, Institute Professor and Professor of Economics, all at Massachusetts Institute of Technology (MIT), Cambridge, MA, USA.

<http://econ-www.mit.edu/faculty/pdiamond>

Dale T. Mortensen, US citizen. Born 1939 in Enterprise, OR, USA. Ph.D. 1967 from Carnegie Mellon University, Pittsburgh, PA, USA. Ida C. Cook Professor of Economics at Northwestern University, Evanston, IL, USA and Niels Bohr Visiting Professor in Economics at Aarhus University, Denmark.

<http://faculty.wcas.northwestern.edu/~dtmort>

Christopher A. Pissarides, British and Cypriot citizen. Born 1948 in Nicosia, Cyprus. Ph.D. 1973, Professor of Economics and Norman Sosnow Chair in Economics, all at London School of Economics and Political Science, UK.

<http://personal.lse.ac.uk/pissarid>

Prize amount: SEK 10 million to be shared equally between the Laureates.

Further information: <http://kva.se> and <http://nobelprize.org>

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