Joseph Stiglitz

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In News

Joseph Stiglitz is an **American economist and recipient of the 2001 Nobel Prize.** As a New Keynesian economist, Stiglitz' research has contributed to the understanding of **how microeconomic phenomena can provide a foundation for macroeconomics.** Stiglitz' research includes groundbreaking work on information asymmetry in many different applications, monopolistic competition, and risk aversion.

More About Joseph Stiglitz

- For a long time, the assumption underlying much of mainstream economics was that the **invisible hand worked its magic** seamlessly. Prices moved smoothly up as demand outpaces supply and rushed back down when the tables were turned, **keeping markets in equilibrium.**
- Many observers realized the truth was actually quite different – that **prices, and wages and interest rates in particular, were often sticky**, and that this sometimes prevented markets from clearing.
- Joseph Stiglitz proved why some prices were naturally sticky, thereby **creating market inefficiencies** and thwarting the functioning of the invisible hand. In Stiglitz's words, the invisible hand "is **invisible at least in part because it is not there.**"
- Stiglitz's work emphasizes the **risk of basing policies on the assumption that interest rates rise and fall smoothly.** Instead of relying on rules of thumb about when to raise or lower rates, creative, analytical thinking is needed.
- Further, Stiglitz was awarded the Nobel Prize in the Economic Sciences for his **work on the theory of information asymmetry**, including the use of screening by

insurance companies to sort customers by type in order to manage risk.

- His work explores various ways in which **imperfections in information shared** between market participants can **lead markets to fail to reach efficient, competitive outcomes.**
- Stiglitz also helped to create the **theory of monopolistic competition**, which tries to account for competitive markets where firms and products can be differentiated from one another.
- In monopolistic competition, things like advertising, branding, and product differentiation can contribute to **barriers to entry for new firms, which violates the assumptions of perfect competition** and can prevent the market from achieving an economically efficient outcome.