

Nobel Prize for Economy

October 11, 2022

In news— The 2022 Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel was awarded to Ben S Bernanke, Douglas W Diamond and Philip H Dybvig “for research on banks and financial crises”, at the Royal Swedish Academy of Sciences in Stockholm.

Key contributions-

The 2022 Nobel prize laureates in economic sciences significantly improved our understanding of the role of banks in the economy, particularly during financial crises, as well as how to regulate financial markets,

Diamond and Dybvig-

- They **developed theoretical models that explain why banks exist**, how their role in society makes them vulnerable to rumours about their impending collapse and how society can lessen this vulnerability.
- The **duo presented a solution to bank vulnerability**, in the form of deposit insurance from the government.
- When depositors know that the state has guaranteed their money, they no longer need to rush to the bank as soon as rumours start about a bank run.
- **Diamond also showed how banks perform a societally important function.**
- As intermediaries between savers and borrowers, banks are better suited to assessing borrowers' creditworthiness and ensuring that loans are used for good investments.

Ben Bernanke-

- He **analysed the Great Depression of the 1930s, the worst economic crisis in modern history.**

- Among other things, **he showed how bank runs were a decisive factor in the crisis becoming so deep and prolonged.**
- Using historical sources and statistical methods, Bernanke's analysis showed which factors were important in the drop in gross domestic product.
- **He found factors that were directly linked to failing banks accounted for the lion's share of the downturn.**
- The work done by the trio has been crucial to subsequent research that has enhanced our understanding of banks, bank regulation, banking crises and how financial crises should be managed.
- The trio's research reduces the risk of financial crises developing into long-term depressions with severe consequences for society.

Note-

- **In 2019, India-born American economist Abhijit Banerjee was awarded the Nobel Prize for economics** (along with Esther Duflo and Michael Kremer) for helping to develop an innovative experimental approach to alleviating global poverty.
- **Unlike the other prizes, the economics award wasn't established in Alfred Nobel's will of 1895 but by the Swedish central bank in his memory. The first winner was selected in 1969.**
- **In 2021 half of the award went to David Card for his research on how the minimum wage, immigration and education affect the labor market.**
- **The other half was shared by Joshua Angrist and Guido Imbens** for proposing how to study issues that don't easily fit traditional scientific methods.