

Cambridge Economics

News from the Cambridge Faculty of Economics

Issue 8 Autumn 2015



Shaping the Faculty's Future

The study of economics is undergoing a fundamental change. This is reflected across the world's major centres of economics research and teaching. Guiding Cambridge's response is Sanjeev Goyal, the Faculty's new Chair. He sets the scene by noting the shift that has taken place in what counts as good economic research. When he graduated from Cornell in 1990 almost all the brightest

graduate students would be specialising in economic theory or in econometrics, with relatively little interest in empirical evidence. Nowadays that is unusual. It is not that development of theory is discouraged, it is clearly important and necessary, but rather that it is not enough. The expectation is that innovative research should have a strong empirical strand. The theory should be used and tested.

The challenges posed by the recent economic crisis are part of what lies behind this. They have also encouraged economists to dig deeper into the foundation of their subject, and here the need for conceptual work is pressing. But there is an increasing awareness that the concepts should draw on associated disciplines in the social and natural sciences, and from history. Also important has been the proliferation of large economic and social data sets and the massive growth of computing

power with which to analyse them. To make a contribution today, economists need to have a clear theoretical model, but they also need to engage with empirical data, and to do so as a team, increasingly with colleagues in other disciplines. Cambridge provides an ideal environment.

In last year's Research Excellence Framework the Faculty performed very well in terms of the world-class quality of its research output, but the number of its researchers was substantially fewer than were entered by the other universities at the top of the British league table. This matters not only in terms of research; it matters for research training. Thanks in part to the Colleges, the Cambridge undergraduate Tripos degree remains internationally outstanding for the quality of student it attracts and the economics training it provides. But providing comparably intensive and broad teaching for graduate students is difficult without increased numbers of research active staff. Attracting the best students – not least from among the Faculty's own undergraduates – also requires that it provides many more fully-funded scholarships to support outstanding students throughout their training. The challenge facing the Faculty is thus one of attracting resources, for both more faculty members and for more graduate students.

An excellent start has been made. In 2012 The Cambridge-INET Institute was established to support fundamental research in economics, with help from private benefactions. It has transformed the quality of intellectual life in the Faculty by attracting and retaining world leading faculty members, research fellows and visitors, as well as funding more doctoral students, conferences and workshops. The success of this Institute has inspired a generous gift from Bill and Weslie Janeway, long-time supporters of economics in Cambridge. Their \$27m gift provides an endowment for the Institute and initiates a new Professorship in Financial Economics.

Another major initiative is the Keynes Fund for Applied Economic Research, endowed by a generous benefactor in 2012. It is now providing Cambridge economists with seed funding for large-scale innovative projects. Seventy years ago, John Maynard Keynes and Richard Stone established the Department

of Applied Economics, which was largely dependent on public resources. It played a crucial role in improving the quality of British economic data and the reach of applied research. In this tradition, a worthy ambition is to create an institutional forum that would act as a bridge between fundamental academic research and the concerns of policy and practitioners, through a combination of public funding and philanthropy.

Sanjeev's own work is very much in line with recent developments in economics. It spans theory and the use of large data sets and experiments, and it draws on insights from other disciplines. He is interested in how social, economic and infrastructure networks are formed and in how they shape human behaviour. Networks are also a major field of study for mathematicians, computer scientists, engineers, and social and natural scientists, and his work is inspired by and often carried out in collaboration with colleagues from these disciplines.

He is studying the resilience in interconnected systems. This is motivated by topical problems like financial contagion, cybersecurity, disease epidemics, supply chain disruptions and international conflict. Another strand of his research is concerned with individual cognition and behaviour in networks. Theoretical research provides theoretical predictions but we have a poor understanding of how human beings actually perceive complex networks and how that affects behaviour. Sanjeev has recently been awarded grants from the Keynes Fund and the European Horizon 2020 programme to conduct experiments that address these questions. A third line of work explores the empirical properties of large evolving networks. He studies the topology of collaboration networks among scientists and firms, the linking dynamics, the role of gender and identity in networking, and the productivity implications of network dynamics.

Sanjeev has this year been elected a Fellow of the British Academy.

Willy Brown and Tony Cockerill

Communities of co-operators

Edoardo Gallo reports on a project supported by the Keynes Fund



Cooperation is essential for societies to prosper. The prisoner's dilemma game has

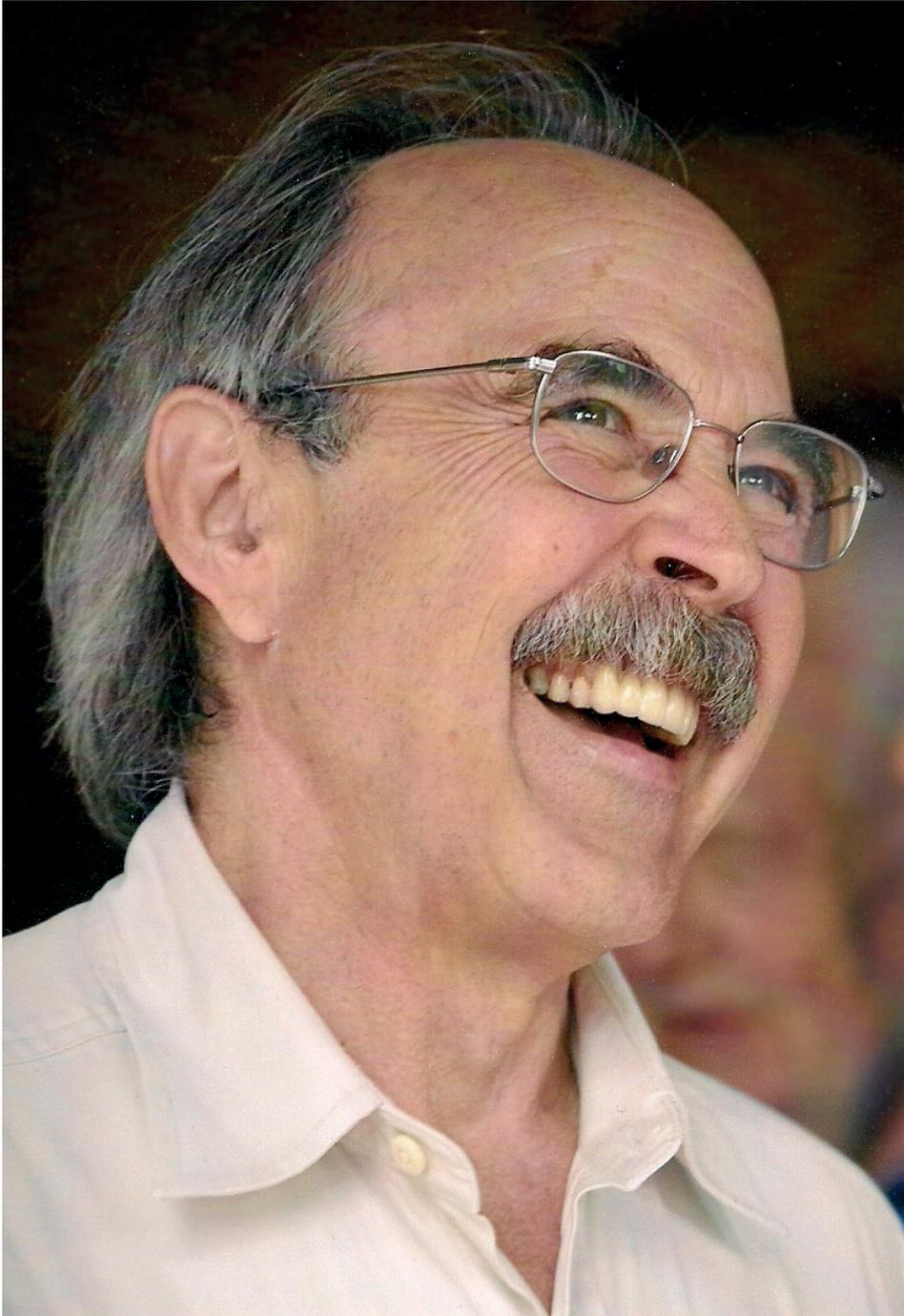
been widely used by social scientists to study the trade-offs involved in the decision to cooperate. A well-established finding is that reputation – what you know about others' past behaviour – is crucial for the emergence of cooperation. There are at least two sources of reputational information: the people you can observe directly because they are your social connections, and external reputation mechanisms which provide information about everyone.

In an online experiment, involving 364 participants located across the USA, Chang Yan and I allowed subjects to make connections with each other to form a social network. After the connections were formed, subjects played a prisoner's dilemma game with their neighbours on the resulting network. We systematically varied the information available to subjects about reputation and the network to investigate experimentally their roles in determining cooperation. We found that common knowledge about everyone's reputation is the main driver of cooperation, leading to dense and clustered networks. The addition of common knowledge about the network affects the distribution of cooperative activity; cooperators form a separate community and achieve a higher payoff from within-community interactions than members of the less cooperative community.

The development of social networking tools (such as Facebook and LinkedIn) in the last decade has given individuals more information about their social networks. The results of our study suggest that an effect of these tools is to facilitate the formation of communities whose members share behavioural commonalities. In the context of cooperation, we find that access to information about the whole social network, in addition to everyone's reputation, allows the emergence of a community of cooperators. Exploring whether this effect extends to other domains is a promising direction for future research.

Distinguished Alumnus

Bill Janeway



The global financial crisis and consequent recession have been a great stimulus for economics. They shattered the complacency underlying New Classical economic models that had become dominant in the 1970s and 1980s.

In place of panglossian assumptions, such as those represented in the rational expectations hypothesis, Bill Janeway is optimistic that the Institute of New Economic Thinking (INET)

will contribute to a more robust and eclectic discipline, better suited to contemporary economic realities. This year he and his wife Weslie have made a benefaction, substantially greater than any ever received by the Faculty, to establish the Janeway Fund for Economics. This will support a new Janeway Professorship in Financial Economics, as well as economics teaching at Pembroke College and research fellowships and studentships associated with the Cambridge-INET Institute.

A Board Member on the Cambridge-INET Institute Management Committee, Bill first came to Cambridge from Princeton, completing his doctorate on British economic policy during the Depression in 1971 under Richard Kahn. His subsequent career in entrepreneurial finance culminated in his leading a team focussed on investing in the foundations of the internet economy for Warburg Pincus. His professional work, plus reflections on the dynamics of financial economics from his Cambridge years on, combined to inform his *Doing Capitalism in the Innovation Economy* (CUP), which was among the FT's 'best books of 2012'. He has been a generous supporter of the Faculty for twenty years and co-chaired the Cambridge University 800th Anniversary Appeal. In 2001, together with Weslie, Bill established the Cambridge Endowment for Research in Finance, based at the Judge Business School but supporting research in financial economics across the University.

Bill identifies four key features of 'new economic thinking'. The first is the recognition that economic and financial decisions are made under varying degrees of uncertainty, with regard not only to their direct consequences, but also to the future environment in which these will be realised. Thus, it is necessary to investigate co-ordination failures among individuals with imperfect knowledge and complex motives. Second, the crisis has emphasised the interdependence of the financial system and the wider economy. The extreme degree of financialisation makes it essential to reintegrate economic and financial analysis, and to do so at individual, firm, sectoral and macro level. A third feature is a reconsideration of the distribution of income and wealth. In place of the prediction of rational choice theory that factors of production receive their marginal products, it is necessary to pursue a broader analysis that takes account of the social, political and psychological factors at work. A serious appreciation of history is the fourth feature Bill identifies. By this he means not only the importance of differences in the historical context of superficially comparable economic episodes, but also an understanding of deeper changes emerging in, for example, technological innovation and state intervention. The intellectual challenge facing economics is as formidable as it is exciting. The Janeways' generosity will do much to help the Faculty address it.

Willy Brown

Stefanie Stantcheva

Stefanie Stantcheva (Caius), a graduate of the Economics Tripos in 2007 has, to her great credit, just been appointed as an assistant professor at the Economics Department of Harvard University. We asked her about her research. She writes:

My research focusses on the issues of inequality, redistribution and taxation. My first goal is to understand the large increases in income inequality in developed countries in recent decades, and people's attitudes towards them. In a study with Thomas Piketty and Emmanuel Saez, we showed that since the 1970s, higher top marginal tax rates across 18 OECD countries have been strongly correlated with a lower share of income of the top 1% earners, but have not been systematically associated with lower economic growth. This is puzzling if higher tax rates discourage productive effort, but not if higher top tax rates also discourage costly but socially unproductive rent-seeking effort. To test this hypothesis, we show that, first, while CEOs are paid for their performance, part of that pay is actually "pay-for-luck," a form of rent. CEO pay is strongly linked to factors which cannot be due to their own efforts, such as industry-wide performance. Second, we show that this pay-for-luck is more pronounced when top tax rates

are low, which is consistent with the idea that higher taxes at least partially discourage this sort of rent-seeking.

In another study with Ilyana Kuziemko, Michael Norton and Emmanuel Saez, we try to understand why support for redistribution in the US has remained constant, while income and wealth inequality have increased dramatically. In an online randomized experiment we show that, when respondents receive information about the extent and rise of income inequality in the US, they think inequality is a very serious problem. But they do not support more redistributive policies, such as higher income taxes or transfers to low income households. It could be that their awareness of increasing inequality reduces even the already low trust that people have in the government and in its ability to remedy the problem.

My second goal concerns the design of the tax system, which has become increasingly

important with tightening fiscal constraints and rising income inequality. Taxes are meant both to raise the revenue needed for investments in public goods and to redistribute income more equally. The challenge is to fulfill these goals while preserving incentives to work and invest and for economic activity. In one study I constructed a model of the life cycle in which people decide how much human capital to acquire at each stage of their life, either in the form of formal schooling or job training. I derived the optimal integrated system, comprised of a mix of taxes, subsidies, grants, and income-contingent education loans, which provides incentives for human capital accumulation while also insuring against earnings risk. A central finding is that it matters greatly whether education and training mostly benefit the more talented and already advantaged people, or whether they level the playing field across people with different abilities or backgrounds.



The Marshall Lectures 2015

Improving Equality of Opportunity

Economic and moral concern about inequalities in life-choices and in incomes tends to concentrate on outcomes for the present generation and on how public policy prescriptions might help to make things better. For **Raj Chetty** of Harvard, who gave this year's lectures in honour of Alfred Marshall, the focus should also be on the inter-generational consequences of relative deprivation and on the effectiveness of measures to alleviate the effects. His path-breaking research is analysing the relationships between American families' geographic mobility and the eventual social mobility achieved in adulthood by the children. The degree of social mobility attained by the child when adult is measured by comparing the average percentile rank in the US national income distribution at age 24 with that of the parents when the child was growing up.

Chetty's starting point is that metropolitan and rural areas in the US differ from one another in the ease with which individuals can improve their relative income levels in adulthood when compared with those of their parents. If you grow up in an area of low social mobility, your relative income disadvantage is likely to persist. Unless, that is, your family relocates to an area that displays higher upward social mobility. Then you stand a better chance of having a broader range of life-choices and of fully realising the potential of your skills and abilities. These benefits are greater, the younger you are when your family moves.

It is necessary, of course, to control for factors other than relocation that might influence the outcomes. The relocation decision may not be independent of, for example, income level, family background, ethnicity, or neighbourhood characteristics. The standard way of dealing with these issues in experimental method would be by allocating family groups randomly between areas of high and low social mobility. But this is clearly impossible. Chetty is able to overcome these difficulties with 'big data' computational techniques that make it possible to interrogate vast databases of anonymous tax records on the earnings over time of 40 million children and their parents. Using this quasi-experimental approach, children are classified by where they grew up and then are tracked with respect to income wherever they subsequently live as adults. Then it is possible to observe the inter-generational changes in



relative incomes of families that move between areas with different degrees of social mobility with children of different ages.

When discussing policy options to improve equality of opportunity, Chetty identifies five main inhibitors to social mobility: spatial segregation, income inequality, school quality, family background, and lack of social capital. Segregation of communities as the result of income or ethnic discrimination clearly damages life-choices. This can be relieved to some extent by appropriate social housing initiatives. As to income inequality, Chetty stresses the importance of having a substantial 'middle class' of active income generators who can provide a basis for enterprise and advancement. This, he says, is much more worthy of attention than the income share of the 'super-rich'.

His research on school quality shows the contribution made to social mobility by good

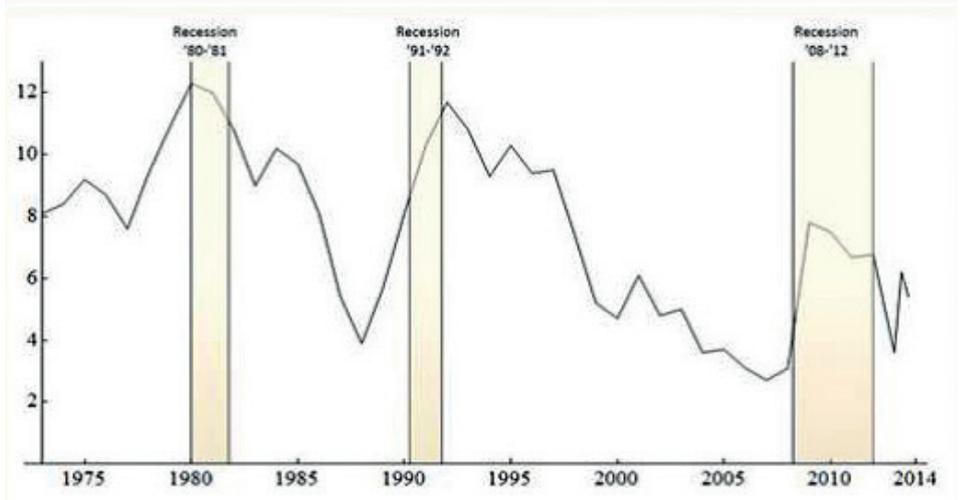
teachers. Their positive influence on school grades, and then on income and social mobility in later life, is at least as significant as that associated with smaller class sizes. Chetty notes that the effects of family background and inadequate social capital are necessarily long-term influences that lie largely outside the gains that he finds from geographic mobility. But, reflecting generally on economic development, he ends by reminding us of the African proverb: "It takes a village to raise a child".

Raj Chetty is William Henry Bloomberg Professor of Economics at Harvard University and is Co-Director of the Public Economics Program of the National Bureau of Economic research (NBER). His Marshall Lectures are at: www.econ.cam.ac.uk/events/seminars/Marshall_Lecture

Tony Cockerill

Saving on a Rainy Day

Hamish Low describes his work with Tom Crossley, supported by the Keynes Fund



What are recessions? We typically think of recessions as macro-economic phenomena, affecting the whole economy. In reality, there may well be very different effects across people of different ages, of different education levels, and in different occupations, and these effects may differ across recessions. Our research aims to understand what a recession means for individual consumers. There are various potential impacts of a recession: (1) an aggregate shock to the level of all individuals' income, which could be permanent or temporary; (2) an increase in the uncertainty that individuals face over their income and employment prospects; (3) a tightening of credit constraints, reducing the capacity that individuals have to smooth shocks or access the housing market; (4) a fall in asset prices, including house prices.

The key response that we explore is in terms of saving behaviour, shown in Figure 1. When recessions hit, we see individuals increasing their saving, cutting borrowing and moving their portfolios into safer assets. When recessions end, this rise in saving is sharply reversed. If recessions were just temporary falls in the level of income, we would observe the opposite: individuals would borrow to smooth consumption through the recession. If recessions reflected sharp falls in asset prices, we would expect high saving rates to persist as individuals rebuild their wealth levels. This leaves two competing explanations for saving

behaviour: increased uncertainty or reduced access to borrowing. The former is a fall in demand for credit, the latter a fall in the supply of credit.

Clearly, the effectiveness of different monetary policies will be sharply affected by which explanation is correct. We do not believe a reduction in the supply of credit to households explains their savings behaviour; the spike in savings behaviour we observe is across all age groups and even older households who are not borrowing at all increased their savings through the recession. Our conclusion is that savings behaviour reflects falls in the demand for credit driven by rises in uncertainty in recessions. This uncertainty is not simply unemployment risk, which is temporary, but is uncertainty over permanent productivity as economies realign in recessions. Figure 2 shows the evolution of the variance of permanent shocks through recessions in the 1980s and 1990s. When uncertainty is resolved, savings rates fall as individuals run down accumulated precautionary balances: this generates consumption booms at the end of recessions.

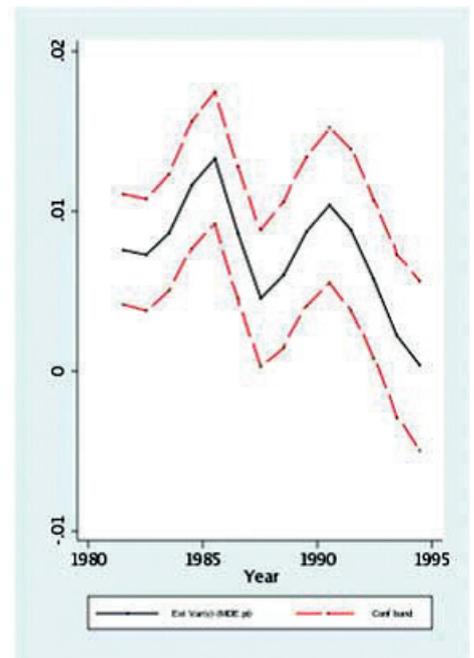


Figure 1, top: Savings Rates across Recessions

Figure 2, bottom: Uncertainty over the Business Cycle

A gathering of distinguished South Asian alumni



The Faculty has long had strong links with the Sub-Continent. At a recent South Asian Conference in New Delhi five Cambridge Economists of the Class of 1972 got together to discuss employment and social protection issues. With their doctoral degrees in economics from Cambridge, they all went on to interesting and distinguished careers.

In the picture (from left to right) are Professor Ashwani Saith (Trinity) who recently retired as Professor Emeritus from the Institute of Social Studies, The Hague, and earlier served as Professor of Development Studies at the London School of Economics. Next to him, also from India, is Professor Abhijit Sen (Clare), Jawaharlal Nehru University, New Delhi, who has recently finished a ten year stint as Member of the Indian Planning Commission. In the

middle is Professor Wahiduddin Mahmud (King's), University from Bangladesh in Dhaka, who has served as interim Finance Minister and is recognised as the leading economist in his country with his contributions to the framing of Bangladesh's Five Year Plans and in improving the country's social indicators. Next to him is Professor Ajit Ghose (King's) currently at the Institute of Human Development, New Delhi, who has recently returned to India after a long and distinguished career with the International Labour Organisation in Geneva. On the right, Professor Rashid Amjad (Queens') from Pakistan has served as vice-chancellor of the Pakistan Institute of Development Economics (PIDE) and Chief Economist of Pakistan Planning Commission, after a long career with the ILO including principal authorship of two World Employment reports.

Cambridge-INET



Since 2012, the Institute for New Economic Thinking (INET) and the University of Cambridge have been working together to strengthen fundamental research at the Faculty of Economics through the Cambridge-INET Institute joint initiative. The broad goal of the Institute is to encourage the development and dissemination of new ways of thinking about classic economic problems like inequality and financial instability, production networks, and the propagation of business cycle fluctuations. Cambridge-INET works towards this goal by funding Postdoctoral Fellows, PhD and graduate students, research grants, conferences, and visits to Cambridge by leading researchers.

Cambridge-INET Postdoctoral Fellows have made major contributions to the Cambridge Faculty of Economics. They have expanded the scope of teaching by supervising students at Colleges and offering lectures at the Faculty. They organize three weekly workshop series during term, covering new research on economic networks, macroeconomics and microeconomics. They have also been presenting their own research, both in the Faculty and at academic conferences.

As an instance of the ongoing work, Miguel Morin (above left) and Scott Swisher (above right) are currently investigating the effect of road network expansion on the United States economy during the early automobile age. They are digitizing contemporary road atlas maps and manufacturing surveys, which provide a level of detail for measuring a producer's access to markets that was previously unavailable. These data allow them to estimate the effect of improved transport access for a wide range of manufacturing industries. This historical approach to economic networks is part of a rapidly emerging literature and reflects how Cambridge-INET is promoting new thinking in economic policy. In the coming year, the number of Cambridge-INET post-doctoral researchers will rise from 10 to 12. Together with colleagues from other programmes, there is now a critical mass of young researchers who can work collaboratively, taking advantage of complementarities in skills and interests.

More information on the Cambridge-INET activities can be found on www.inet.econ.cam.ac.uk.

The Challenge of Secular Stagnation

Coen Teulings, who took up the Montague Burton Professorship of Labour Economics and Industrial Relations in 2013, writes about his recent eBook, edited with Richard Baldwin for VoxEU, *Secular Stagnation: Facts, Causes and Cures*:



The financial crisis has remorselessly exposed weaknesses in the design of the Eurozone as a monetary union lacking a corresponding political union. Initially the US and the UK were affected more heavily than Continental Europe. But while they have more or less recovered, the Eurozone is still struggling.

The concept of 'secular stagnation' was first developed by Alvin Hansen just before World War II, after a decade of unprecedentedly high unemployment. The idea was that the world economy might have entered a period of high supply of savings and low investment demand, requiring a negative real interest rate for the capital market to get to an equilibrium. At the time this view was overtaken by the outbreak of the War, with spending on armaments boosting aggregate demand. After the War, the hike in birth-rates took over as engine of expenditure growth. However, as Larry Summers and Paul

Krugman have recently hypothesized, what the world was able to avoid in 1940 might hit it now. If so, the enduring aggregate demand crisis in the Eurozone could be the main cause.

We asked leading macro-economists to give their view on this debate. They do not all agree on the root cause of the low growth in the world economy since 2008. Robert Gordon is the spokesmen of those emphasising supply side forces. He argues that the high growth during the 20th century was largely due to technological revolutions which created the networks that connect homes in developed countries: sanitation, drinking water, electricity, telephone, and television. No comparable list of innovations is to be expected for the 21st century. This view is disputed by Joel Mokyr and Nick Crafts, who believe that IT, biomedical innovations, and new materials will again revolutionize our economies.

The demand side view is set out forcefully by Paul Krugman and Olivier Blanchard. They document the long trend of declining real interest rates over the past four decades. They suggest that the causes may be increased savings arising from demographic factors such as the rise in life expectancy, from the lack of a welfare state inducing precautionary savings in emerging economies like China, and from a decrease in the cost of capital goods and a consequent shift of profits towards less capital intensive industries. But also the composition of savings and investment matters. The financial crisis has undermined trust in financial institutions, and has made savers increasingly risk averse. At the same time the supply of safe assets such as sovereign bonds has been reduced by austerity and by the collapse of institutions offering assets now revealed to be unsafe. The long run nature of the demographic shift suggests that the stagnation might indeed be secular. It is a view supported by the low growth since the 1990s of the economy of Japan, the world's leader in population ageing.

What is the problem with a negative real interest rate? First, it might be difficult to attain. The real interest rate is the nominal rate minus inflation. The nominal rate cannot fall much below zero. When inflation falls back to zero or becomes negative, as in Japan, it will be impossible to reach an equilibrium in the capital market. A Keynesian recession is the consequence. This tends to reduce inflation further, making an equilibrium even more difficult to achieve. In addition, it might lead to bubbles in the capital market, because a decline in the real interest rate pushes up asset prices.

What policies might deal with this problem? First, raising the inflation target of the central bank should provide more space for market adjustment. A second approach is to raise investment demand, for example by market reforms that increase investment opportunities. Third, there are policies that diminish the supply of savings, such as raising the retirement age. Others are pay-as-you-go pension and health insurance systems. A final approach is through fiscal policies that mop up the excess savings floating around in the economy and use them to increase spending by reducing taxes.

Professor Ajit Singh

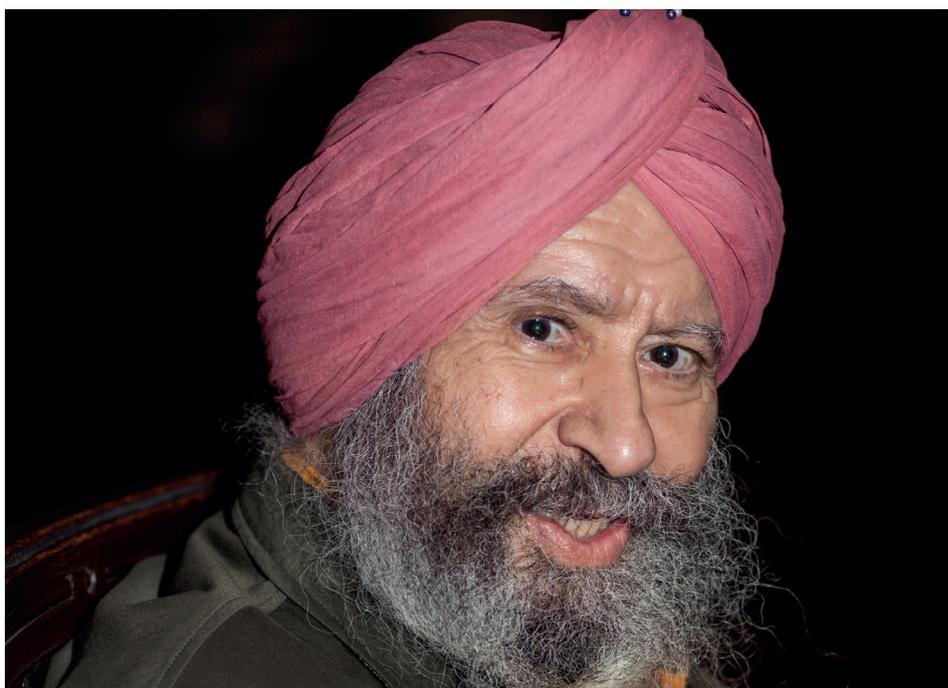
11th September 1940 – 23rd June 2015

Ajit Singh was a pioneer in the analysis of takeovers and the structure of modern business enterprise, the originator of empirical studies of de-industrialisation in advanced economies, and a leading voice in the debate over the dynamics of industrialisation, financial markets and development in the Third World. He inspired generations of Cambridge students, was controversial but always thorough, and despite more than three decades battling Parkinson's disease, contributed original academic and policy work right up to the time of his death.

Singh was born in 1940 in Lahore in pre-partition India, the son of a judge. He studied Sanskrit, mathematics and economics at Punjab University, Chandigarh, then obtained an M.A. in economics from Howard University (Washington, DC), before earning his PhD in economics at the University of California, Berkeley.

It was at Berkeley that he met Robin Marris (visiting from Cambridge) and began to investigate some of the empirical implications of Marris's *Economics of Managerial Capitalism*. Singh moved to Cambridge in 1964 to continue this work, and was appointed a Research Officer in the Department of Applied Economics, then University Lecturer in Economics and Fellow of Queens' College in 1965. He was promoted to a Readership in 1991 and to a Professorship in 1995. He was devoted to Queens', where he became a Life Fellow.

Singh's work on corporate behaviour resulted in two major works, *Growth Profitability and Valuation*, (1968, co-authored with Geoffrey Whittington) and *Takeovers: their relevance to the stock market and the theory of the firm* (1971). Marris, following the work on corporate structure done in the 1930's by Adolf Berle and Gardiner Means, had argued that in a world in which there is limited product market competition, the role of disciplining managers and of aligning their decision-making with the welfare of shareholders would be played by the stock market. He claimed that the market for corporate control would ensure efficiency by selecting the fittest companies for survival. Singh demonstrated conclusively that these rosy conclusions were false. By careful empirical study of takeovers, he revealed that it is not possible to distinguish between the characteristics of acquired and non-acquired firms, other than there is a tendency for smaller firms to be taken over. Equally, both



the short- and long-run impacts of takeovers on share prices suggest that, on average, they lead to substantial loss of wealth for the shareholders of the acquiring company.

Singh's interest in industrial structure and performance took a more macro-economic focus in the debate (stimulated initially by Nicholas Kaldor) over the de-industrialisation of Britain. Initially defined as simply a declining share of manufacturing in GDP (a characteristic shared by all developed countries), empirical research on the phenomenon lacked analytical precision prior to the publication in 1977 of Singh's path-breaking article, *UK industry and the world economy: a case of de-industrialisation?* He defined "an efficient manufacturing sector as one which (currently as well as potentially) ... sells enough of its products abroad to pay for the nation's import requirements ... at socially acceptable levels of output, employment and the exchange rate". This insight is particularly pertinent today, when the UK's deficit on manufactured trade is 5% of GDP (having been 1.5% 20 years ago), contributing to a balance of payments deficit of 6% of GDP. Hence current levels of output and employment are sustained only by the persistent accumulation of foreign debt.

Singh's characteristic analysis of the interaction between financial development, industrialisation and international competitiveness informed his subsequent work on both developed and developing economies. His research spanned

a wide range of topics including the role of the state, industrial policy, structural change, competition policy, foreign aid, agriculture, basic needs, urbanisation, employment, and income distribution. He showed, for example, that firms in developing countries are far more reliant on external finance than are firms in developed economies, and therefore are more vulnerable to financial market instability. A consistent theme was the central role of manufacturing industry in economic development and poverty reduction, informed by his contrast between "close" (i.e. liberal) and "strategic" integration into the world economy.

Ajit Singh regarded the modern obsession with abstract modelling as self-indulgent. He was an inheritor of Keynes's commitment to making economics useful – thoroughly researched material using meticulous empirical technique to address practical problems. He applied similar care to his politics. In the late 1960s his rooms in Queens' were packed with material on the Vietnam War. Few who were present will forget his polite but devastating interrogation of the then Foreign Secretary, Michael Stewart, at an Oxford Union discussion on the war.

But the most abiding memories will be of the twinkling eyes amidst turban and beard, of a penetrating intellect, and an unwavering commitment to social and economic progress.

John Eatwell

The Marshall Society of Economics



The Marshall Society, Cambridge's oldest and most prestigious economics society, brings together all young fellow economists and non-economists in Cambridge, aiming to further their interest in Economics by inviting speakers, organizing seminars and events, and engaging in rigorous discussion on contemporary issues. Every year we continue to meet and set ever higher standards, thriving on offering a wide range of speaker events as well as social and networking opportunities. Our events this year reflect this.

Our annual calendar began with a great success with a house filling debate on the motion "This house believes big banks should be broken up" which included high profile speakers such as Philip Booth, Tony Cockerill, Anu Munshi and Jagjit Chadha. This lively evening touched on a wide range of arguments on a topic

undoubtedly at the forefront of global debate. Other speakers in Michaelmas term included John Perkins (New York Times bestselling Author), Paul Craven, Shang-Jin Wei (Chief Economist of Asian Development Bank) and Kate Barker. Lent term continued with a stellar line up of speakers including John Llewellyn (Chief Economist of Lehman Brothers 2008, *pictured*) and Diane Coyle. Lord Adair Turner ended the year with an engaging talk on 'Credit, money and instability; Keynes vs Hayek'.

The Marshall Society also organises its annual conference which takes place in January. This year's conference on public policy was once again an enormous success with high profile speakers including Vítor Constâncio, Vice President of the European Central Bank. We also arranged various social events to provide a platform to meet new people and budding economists.

Our members are at a stage where they may be being interviewed by firms or starting to think about a career path after graduating. To help them we organise a range of networking events with our sponsors to provide members with skills sessions and an opportunity to meet representatives from various backgrounds such as consultancies, private equity firms, and investment banks, which this year included Barclays, PWC and Terra Firma. Each year the Marshall Society has expanded the activities it has to offer its members to ensure they get the full economics experience and it hopes to continue to do so.

Ekta Mehta (2nd year, Magdalene)

Prizes

Humboldt Research Award



Professor **Oliver Linton** is the 2015 laureate of a Humboldt Research Award of the Alexander von Humboldt

Foundation. The prize is awarded to outstanding scientists who have been distinguished by the substantial impact they have achieved in their areas of expertise.

Royal Economic Society Junior Fellowships

Three of our doctoral candidates are to be congratulated on winning Royal Economic Society Junior Fellowships for 2015-16



Anil Ari studied for both his BA and his master's degrees in the Cambridge Faculty. He is working on sovereign risk, risk-taking by banks and open-economy macroeconomics. He has

recently won prizes for his papers from the Austrian National Bank and from Cambridge Finance.



Frederico Lima did his first degree in law at the University of Coimbra in Portugal, before using the Faculty's Diploma in Economics as a transition to the MPhil. His doctoral

work is on macroeconomics and public economics.



Tomasz Zawisza came to us with a first degree from Oxford and has been a visiting scholar at Berkeley. His doctoral research is on the insurance and

incentive effects of tax policy and welfare programmes.

The Blue Planet Prize



There is an additional reason for pride in the award of the 2015 Blue Planet Prize to Emeritus

Professor Sir Partha Dasgupta. This international award for

outstanding achievement in helping to solve environmental problems, sponsored by the Asahi Glass Foundation, is usually awarded to two people for their work in, respectively, science, and its application relevant for policy. This year, remarkably, Partha has been awarded the science prize; the policy prize has been awarded to Columbia University's Jeffrey Sachs.

In the judges' view: 'Professor Dasgupta's pioneering work on welfare economics and environmental economics unified the concepts of intergenerational equity and sustainable development and pointed to their equivalence. He also pioneered the study of rural poverty in developing countries in the context of a deteriorating environmental resource base; and thereby brought together previously disparate fields: development economics and environmental economics. In a wide ranging book on human well-being and the natural environment he showed that the coin by which economic progress should be judged is a comprehensive measure of a nation's wealth, and not GDP or the many *ad hoc* indicators of well-being in common use today. He has used those findings to develop an ideal system of national economic accounts, which is being implemented in India and several other countries. His lifelong aim of bringing nature seamlessly into economic reasoning has had a huge impact on contemporary thinking.'

In his response Partha comments: 'Ultimately, if humanity is to make peace with nature, the move will have to come from each one of us. Understanding the way we at the individual level treat nature as we go about our lives is the necessary first step to any resolution of the problems we face. In my own work I have tried over the years to understand the ways in which poverty and wealth in the household leave their distinctive marks on nature.'

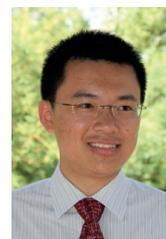
Involved with policy at the highest levels, Partha has played a central role in the advisory process leading to Pope Francis' recent path-breaking, and potentially hugely influential, Encyclical 'on care for our common home', concerned with climate, energy and the environment.

Comings and Goings

The Faculty is delighted to welcome three new lecturers:



Debopam Bhattacharya is coming from Oxford University, having studied for his doctorate at Princeton, with previous training at the LSE and the Indian Statistical Institute. His research interests include empirical micro-econometrics.



Kai Liu is coming from the Norwegian School of Economics. His first degree was at Peking University and he did his doctoral work at Johns Hopkins University. His research interests

include labour economics and applied microeconomics.



Matt Elliott is coming from the California Institute of Technology. He gained his doctorate at Stanford after first and master's degrees at Oxford. His research interests include various

aspects of networks in markets.

The Faculty is sorry to lose **Jane Cooley Fruehwirth** who is to be congratulated on taking up a position in the department of economics at the University of North Carolina, Chapel Hill.

Promotion to Professorship



A Professorship has been awarded **Tony Lawson**, whose popular Monday evening Realist Workshop on alternative approaches to economics has run for many years. His

latest book 'The Nature and State of Modern Economics' was published by Routledge this year, following his earlier 'Reorienting Economics' and 'Economics and Reality'.



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