



THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■



DEPARTMENT OF ECONOMICS



WELCOME TO THE DEPARTMENT OF ECONOMICS AT LSE

LSE is a place of learning and thought that supports the people and ideas which shape the world, while also reaching out to the world to improve societies. The Department of Economics at LSE has always played a central role in the life of LSE and embodies these principles.

On the intellectual side, it has played a critical role in shaping the discipline of economics during the past century. Many of the important ideas in economics were invented or debated here and our faculty and students have been world-leaders in the field. The Department also has a long history of engagement with policy-making, going back to the founding principles of the School, and maybe best embodied in the work of Lord Beveridge, the architect of the British post-war welfare state. It has also educated myriads of students over the years, many of whom have gone on to hold the highest positions in politics, finance, central banks, international organisations, academia and civil society. All these traditions continue to flourish, and the Department is regarded as one of the leading economics departments in the world today.

Minouche Shafik

Director of LSE



LSE is a place of learning and thought that supports the people and ideas which shape the world, while also reaching out to the world to improve societies. ”



The Department of Economics at LSE

The Department of Economics at LSE is one of the leading economics departments in the world, looking back on an illustrious history. Over the past 100 years, almost every major intellectual development within the economics discipline has received input from members of the Department, which counts ten Nobel Prize winners among its current and former staff and students.



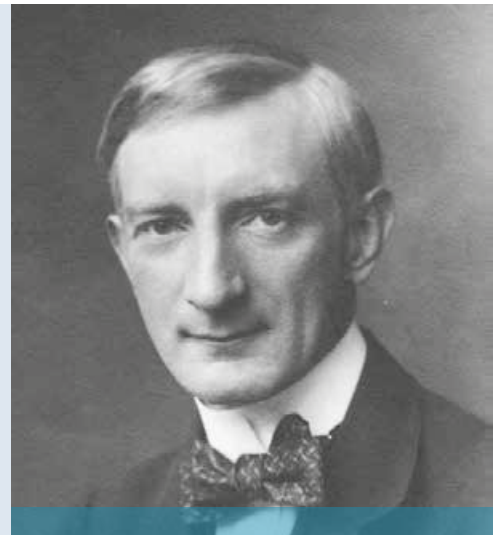
HUMBLE BEGINNINGS IN POST-WWII LONDON

The LSE was founded in 1895 with 200 students and became the University of London's Faculty of Economics in 1900. In 1919, William Beveridge became Director of the School. He was a model for future generations of economists at LSE, a serious academic who cared deeply about shaping policy to make the world a better place. The architect of the post-World War II welfare state in Britain, Beveridge's lasting academic interest was unemployment. He was particularly intrigued by the co-existence of unemployment and unfilled vacancies, and the graphical relationship between the two variables came to bear his name.

One of the decisive influences on the Department of Economics was Lionel Robbins, who joined in 1929 and stayed for over 30 years. He was doctoral advisor to a distinguished group of students including Nicolas Kaldor, Abba Lerner, William Baumol and Frank Hahn. Robbins, though the leading theorist in the Department in the 1930s, had his most profound impact through the people he brought to LSE.

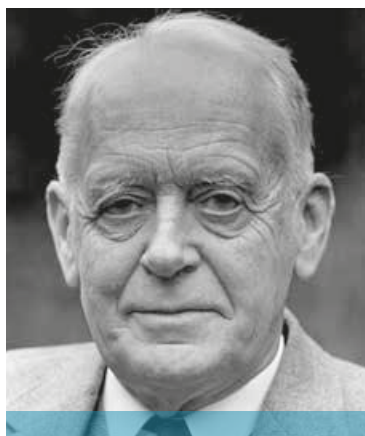
The period was, of course, dominated by the great debate about the nature of unemployment during The Great Depression, with the Cambridge economist John

Maynard Keynes as the pioneer of a new way of thinking. Robbins was no friend of these ideas and his regret was not having attacked them more fiercely. One of Robbins' recruits was Friedrich von Hayek, who had no such regrets; not only an outspoken critic of Keynes' ideas, Hayek – the intellectual giant in the Department at the time – worried about the government intervention proposed by both Keynes and Beveridge. Hayek's work highlighted the problems of central planning as it was being practiced in the Soviet Union, and concluded that competition and the price mechanism in a market economy would aggregate information and coordinate economic activity far more effectively. He shared the Nobel Prize in Economic Sciences in 1974.





A MULTIPLICITY OF IDEAS



The Department of Economics at LSE has always been awash with diverse and sometimes opposing views. Although he had joined the Department before them, John Hicks

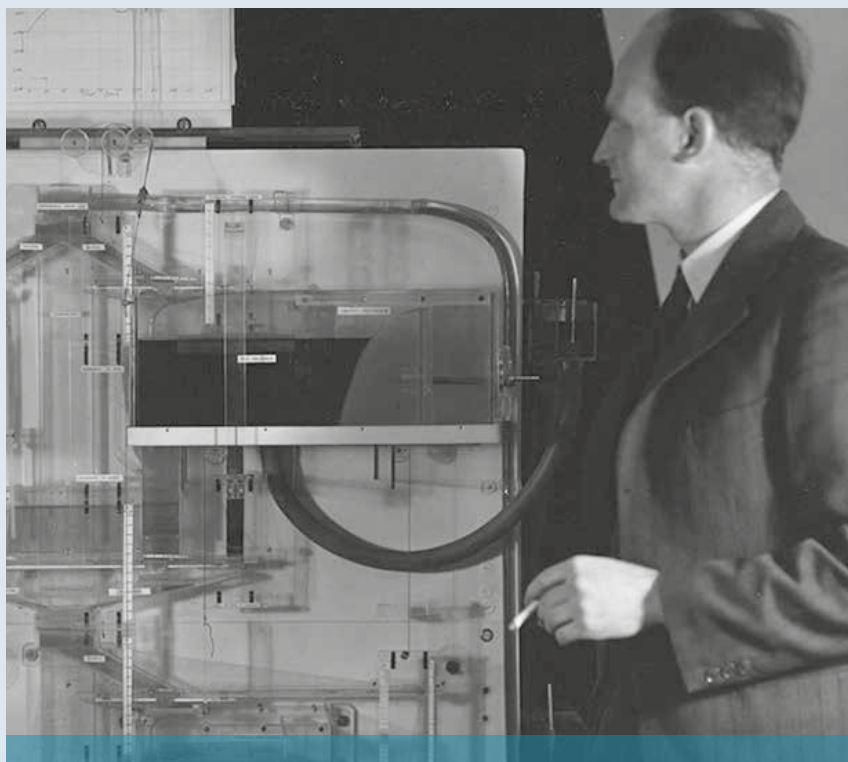
was junior to Robbins and Hayek and duly kept his head down during the raging debates of the 1930s. He soon moved from descriptive work on industrial relations, much in the tradition of Beveridge, to more analytical work, culminating in two landmark books: *The Theory of Wages* and *Value and Capital*. Hicks later shared the Nobel Prize in Economic Sciences in 1972. Soon after leaving LSE for Cambridge, Hicks codified Keynes' theory in the form of the IS-LM model, taught to macroeconomics students for decades.



“LSE's Economics Department has a huge number of world-leading researchers on the faculty, with diverse interests. This was very important to me during my PhD. I wanted to pursue a slightly unusual combination of questions and methods. I was interested in macroeconomics and finance, for example in studying how banking crises affect the real economy. At the same time, I felt that microdata on individual firms and banks could lead to interesting research findings. Studying at LSE allowed me to pursue this approach, because I could learn from professors with very different expertise, without having to specialise in one subfield. There are very few departments in the world that would have supported my research in the way LSE did. Another key aspect of an LSE education is that we always got encouraged to work on the important questions, those that can really make a difference to understanding the world.”

Kilian Huber

BSc in Economics (2011), MSc in Economics (2012), PhD in Economics (2018), Assistant Professor at the University of Chicago's Booth School of Business



CIVIL ENGINEERING AND INNOVATION

By the end of the war, Keynes' ideas were less controversial, even at LSE. It was these ideas which attracted a sociology student, William Phillips, when the type of mathematical formulations of Hicks were still new to many economists. Originally starting in electrical engineering, Phillips had interrupted his studies to join the Royal Air Force. His engineering acumen allowed him to turn the Keynes-Hicks model into the form of a hydraulic machine—his MONIAC computer. Phillips' landmark work on the relationship between unemployment and inflation was published in 1958 in LSE's journal *Economica* and earned him a professorship in the Department.

Unemployment research

The study of unemployment regained renewed importance in the 1970s and 1980s, when unemployment was rising in Europe and remained stubbornly high. Richard Layard raised research grants for a Centre for Labour Economics (CLE), bringing together a group of LSE labour economists including Stephen Nickell and Richard Jackman. They embarked on collecting evidence and building a framework to understand the dynamics of unemployment and formulate policies to combat it. In 1976, the group was joined by a previous LSE PhD student, Christopher Pissarides. Pissarides started to build a modelling framework which combines frictions in the process of moving workers to new jobs with the wage-setting pressures due to the Beveridge and Phillips mechanisms. In the past quarter-century, it became one of the standard modelling frameworks to study unemployment and earned Pissarides a Nobel Prize in 2010.

IMPACT IN LABOUR ECONOMICS

Branching out into fields beyond labour economics, Layard turned the CLE into the Centre for Economic Performance (CEP) in 1990, one of the three big research centres associated with the Department today. The CEP

has since received its core funding from the Economic and Social Research Council (ESRC) and was awarded the status of an ESRC Research Institute in 2018. Although Layard passed on the directorship of the CEP in

2003, he remains active in UK politics. He was influential in the labour market and welfare policies of the Tony Blair government in the 1990s and early 2000s before turning his attention to the importance of wellbeing and mental health.



Exploring market virtues

Back in the 1930s, Robbins didn't just bring Hayek to LSE but also Ronald Coase, who, like Phillips, had been an undergraduate at LSE. While Hayek espoused the virtues of markets over central planning, Coase asked why do firms, little islands of central planning within market economies, exist. In his 1937 *Economica* paper, he noted that many market exchanges involve transactions costs and create frictions, which can often be overcome more easily within the dirigiste environment of a firm. This line of inquiry proved extremely fruitful and had given rise to many new branches of economics by the time Coase received the Nobel Prize in 1991.

Theory meets policy



The Department has always combined applied and policy-oriented work with precise theoretical work. One great contributor to this was Denis Sargan, who joined the Department in 1964. Apart from making foundational contributions

in many areas of econometrics, he counted many of the leaders in the field among his PhD students, such as Peter Phillips and David Hendry, the latter of whom became a faculty member. Peter Robinson succeeded Sargan in 1984 and led the econometrics group until his retirement in 2018.



“Joining the PhD program in economics at LSE changed my life. From the very beginning, students are immersed in a vibrant intellectual environment, with countless high-quality seminars and opportunities to interact with leading experts in their field. Even more importantly, PhD students have the opportunity to collaborate with faculty and learn from them. This apprenticeship model empowers junior researchers and provides a phenomenal opportunity to hone research and presentation skills that are critical in academia, policy and the business world. I am grateful to LSE for the training it gave me and for encouraging my passion for research.”

Raffaella Sadun

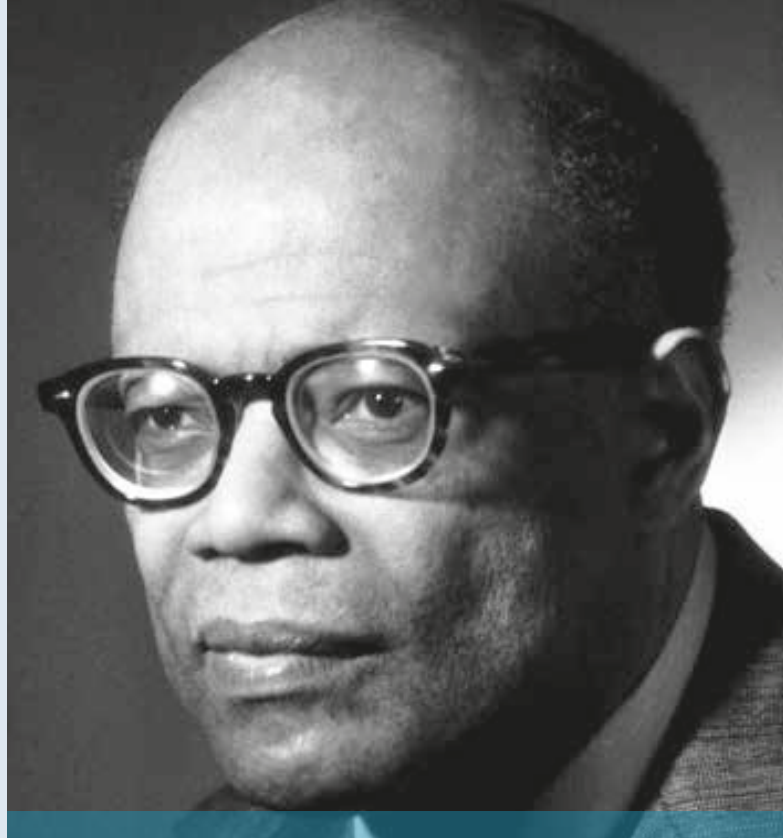
PhD in Economics (2008), Associate Professor at Harvard Business School

DEVELOPMENT ECONOMICS

Another area where LSE economists made path-breaking contributions is development economics. Arthur Lewis gained his PhD in 1940. A gifted teacher, he remained a staff member until 1948. Lewis started in the industrial relations tradition of a Beveridge or young Hicks, and studied the way workers moved from low to higher value-added jobs. He received the Nobel Prize in 1979 for conceiving the economies of poor countries as consisting of dual sectors: a traditional and a modern one.

In the 1960s and 1970s, Peter Bauer contributed to one of the great debates in the field as a vocal critic of financial aid to poor countries. Nicholas Stern joined LSE in the 1980s, becoming one of the foremost exponents of the academic economist as a public servant. Stern went on to work in the European Bank for Reconstruction and Development (EBRD) and the World Bank, HM Treasury and the Government Economic Service, and is probably best known for the UK Government's Review on the Economics of Climate Change.

Development economics got a further boost when Tim Besley moved to the Department in



1995. Together with Oriana Bandiera and Robin Burgess, he built one of the world's leading groups in the field. Much of the group's work finds practical policy applications through the International Growth Centre at LSE, largely funded by the UK Department for International Development. Besley has since moved on to research, mainly in the emerging field of political economy and is frequently joined by his collaborator Torsten Persson, who visits the Department regularly as a Centennial Professor.

The Department at the turn of the century

Three more Nobel Laureates worked at the Department during the 1970s and 1980s. Amartya Sen studied the voting paradoxes discovered by Kenneth Arrow before going on to his more famous contributions about the nature of famines and inequality. He was followed by George Akerlof, who came with his wife Janet Yellen (later Chairperson of the Federal Reserve Board). Soon afterwards, Oliver Hart spent four years at LSE.

The economic theory group continued to thrive in the 1980s. Old problems began to be viewed through the lenses of game theory and contract theory. John Sutton was a young lecturer in the Department when he worked on the game theoretic treatment of bargaining. Oliver Hart was joined by another young lecturer, John Moore, and they brought modern contract theory to bear on Coase's old problem of the boundaries of the firm.

In the 1990s, Moore turned his eyes towards monetary economics. Joining forces with recent arrival Nobuhiro Kiyotaki, they presciently incorporated a role for credit markets and a financial sector into a macroeconomic model. The lack of more such models was much criticised when the 2008 financial crisis sent economies into a tailspin.

NEOCLASSICAL TRADE THEORY



Another of the Robbins recruits was James Meade, who joined just after the war. Asked to teach international economics, he wrote two books on the subject, believing it had to be taught in a more modern way. Work on the books occupied him for the better part of his ten years at LSE. Although he felt the results were still incomplete, the Nobel Prize committee thought otherwise and awarded Meade the Prize in 1977.

Just when Meade received the prize for his contributions to neoclassical trade theory, it was about to be superseded by Paul Krugman's new trade theory, built on economies of scale and monopoly power. While Krugman worked on drawing out the implications of this theory for the geographic organisation of economic activity, he spent many summers visiting the Department, collaborating with LSE's Anthony Venables. This tradition in economic geography and urban economics lived on in the 2000s through Stephen Redding and current Department member Daniel Sturm. They received the prestigious Frisch Medal for their analysis of the urban structure of Berlin through the division of Germany.



“LSE gave me countless possibilities to witness world-class research in the making, and the freedom and encouragement to learn as much from this as I could. I especially cherished the Department's many research seminars, at which, week in and week out, world-leading economist speakers would visit for their latest work to be probed by exactly the same collaborative and critical culture that students' own work would also benefit from. Another key element, for me, was the Department's tradition of cross-field interactions – for example, I can still point to the specific areas of my thesis that drew on my conversations with the development, trade, history, labour, IO and macro communities. I feel extremely fortunate to have had the chance to study at LSE. ”

Dave Donaldson

MSc in Economics (2003), PhD in Economics (2009), Professor at MIT and winner of the John Bates Clark Medal in 2017

ECONOMETRICS AND MATHEMATICAL ECONOMICS

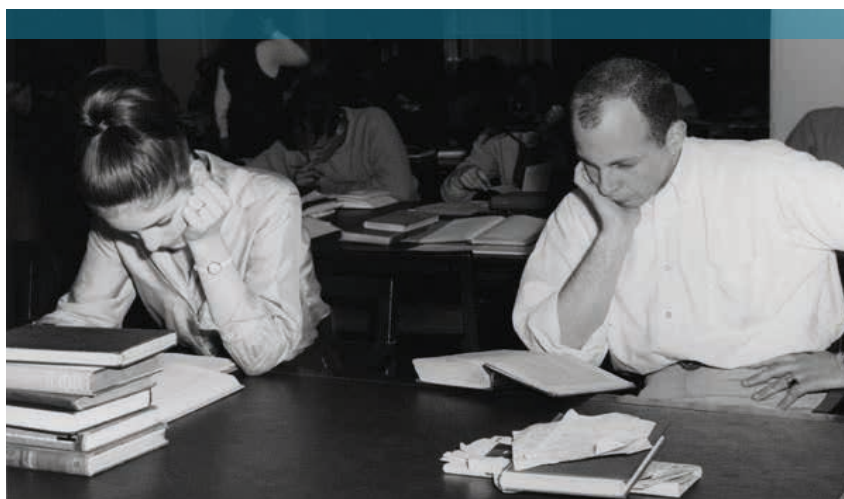
10

Where Sargan and Robinson were quiet intellectuals, the opposite was true of the extroverted Frank Hahn and Terence Gorman. It was one of the more brilliant moves of the Department to recruit these two together in 1967. Two mathematical economists at the height of their careers, they stressed technical training, the use of mathematics and econometrics, and established the venerable degree in Econometrics and Mathematical Economics. Hahn brought this way of thinking to general equilibrium theory in his book with Kenneth Arrow. Gorman planned to do something similar for utility theory but was desperately unlucky: the only copy of his book manuscript was lost on the ship coming back from a visit to the United States. For decades hence, many of

his results were rediscovered, often to the refrain from former colleagues that "Terence had done all that already".

Hahn and Gorman were followed by a string of talented theorists in the Department. One was Michio Morishima, like Hahn interested in general equilibrium. Even after many years in London, he never became fully fluent in English but despite his accented

delivery, students adored his teaching in the first year economics course. His big legacy is the establishment of a new research centre, the Suntory and Toyota International Centre for Economic and Related Disciplines (STICERD). Unable to compete with Richard Layard's acumen in raising public funds, Morishima turned to Japanese industrialists instead, who endowed the centre.



Accolades

Nobel Prize winners

LSE students: Robert Mundell, Christopher Pissarides

Faculty: John Hicks, Friedrich von Hayek, James Meade, Arthur Lewis, Merton Miller, Ronald Coase, Amartya Sen, George Akerlof, Christopher Pissarides

John Bates Clark Medal winners

(awarded by the American Economic Association to the best economist under 40):

LSE students: Daron Acemoğlu, Dave Donaldson

Yrjö Jahnsson Award winners

(awarded by the American Economic Association to the best economist under 40):

LSE students: Richard Blundell, Fabrizio Zilibotti, John Hardman Moore, Helene Rey, Thomas Piketty, Imran Rasul

Faculty: Torsten Persson, Nobuhiro Kiyotaki, John Hardman Moore, Philippe Aghion, Timothy Besley, John van Reenen, Oriana Bandiera

Economics and finance

Working on this link between macroeconomics and financial markets had long been at the heart of research in the Financial Markets Group (FMG), set up at the time of the 1987 stock market crash by Mervyn King and Charles Goodhart. This group's work was far more applied and policy-oriented than that of Kiyotaki and Moore. The FMG founders spent part of their careers at the Bank of England: Goodhart as an advisor and external member of the Monetary Policy Committee (MPC); and King as chief economist and as Governor during the financial crisis. The Department has a long history of its members joining the MPC, including Charles Bean (later Deputy Governor), Stephen Nickell, Tim Besley, and currently Silvana Tenreyro. Other monetary economists in the Department remain at the forefront of policy debates, such as Ricardo Reis with his work on central bank balance sheets and European Safe Bonds (ESBies). Today, departmental research in this area comes under the umbrella of the Centre for Macroeconomics. The macroeconomics group split off from the CEP in 2012, joining forces with colleagues at UCL, Oxford University, the Bank of England and NIESR to form this new ESRC-funded centre.

Research programmes

Although the Department has always produced some outstanding PhD students (many who have gone on to be giants in the profession), in the early 2000s the Department felt that it was falling behind US departments in the training offered. In 2003, the traditional model of purely apprenticeship-based training in an MPhil-PhD programme was replaced by the current MRes programme, with two years of rigorous coursework preceding the research phase of the PhD. The current programme continues the tradition of the Department in this area, attracting and producing some exceptional talent. It is probably the only PhD programme outside the US competing with some of the best departments there.



“ Being an Economics student for undergraduate up to masters, the Department offered more than I could ask for: regular guest talks on pressing issues, panel discussions on academic/research topics, alumni networking sessions and broader pastoral support on a personal basis. It provided a home for me in London, and abundant opportunities to make the most of university experience. It pushed my limits and nurtured me to pursue my passion and intellectual curiosity.

Now working as an economic consultant in London, I still maintain my relationship with the Department through part-time undergraduate teaching and alumni events. The Department still feels like home and it is great to have ongoing opportunities to engage with students and give back to them what I once received as a student. ”

Jinny Park

BSc Economics (2013), MSc Economics (2014), Senior Associate at PwC Strategy & Economic Consulting

lse.ac.uk/economics



Twitter: @LSEecon

YouTube: EconomicsLSE

Facebook: LSE Economics Department

Facebook Alumni group:

LSE Economics Alumni

Instagram: @lse.economics

LinkedIn: LSE Department of Economics

Department of Economics
The London School of Economics
and Political Science
Houghton Street
London, WC2A 2AE

Tel: +44 (0)20 7955 7542 or 6426

Fax: +44 (0)20 7955 6592 or 4626

Email: econ.hub@lse.ac.uk

This information can be made available
in alternative formats, on request.
Please contact econ.link@lse.ac.uk

the London School of Economics and Political Science is a School of the University of London. It is a charity and is incorporated in England as a company limited by guarantee under the Companies Acts (Reg no 70527).

The School seeks to ensure that people are treated equitably, regardless of age, disability, race, nationality, ethnic or national origin, gender, religion, sexual orientation or personal circumstances.

Design: LSE Design Unit (lse.ac.uk/designunit)

Photography: Nigel Stead, LSE School Photographer