



THE LONDON SCHOOL
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**ECONOMICS
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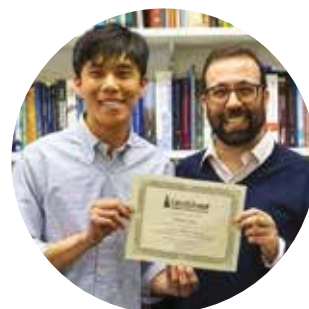
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FACULTY PROFILE: MAITREESH GHATAK



What is your family background?

I grew up in Calcutta in an urban, middle-class, progressive family. My family includes several well-known writers and artists, such as my father's eldest sister, Mahasweta Devi, who was one of the most famous writers in modern India, and my grandfather's youngest brother, Ritwik Ghatak, who is named, along with Satyajit Ray as a pioneer of arthouse cinema in India. My paternal grandmother's eldest brother, Sachin Chaudhuri, is the founder-editor of the *Economic and Political Weekly* of India which from its first appearance in 1949, remains the top journal internationally on issues relating to India, and her youngest brother, Sankho Chaudhuri, was a well-known sculptor. My mother is a third-generation college teacher, after her father and grandfather (the latter switched to practising law later), and her mother did her PhD in ancient Indian history at Heidelberg University in the 1950s.

The ambience in which I grew up was politically progressive and culturally cosmopolitan. A great emphasis was placed on being well-read. I have memories of large rooms full of books – classics, non-fiction, and fiction (as well as occasional issues of the *Mad* magazine!) – in the ancestral houses of both my parents. Talking about the LSE connection – I was familiar with the names of Bernard Shaw, the Webbs and Harold Laski before I even learnt to read properly because their books adorned the bookshelves of the home library.

Animated debate and discussions about economic, political and social issues were a regular part of our social life at home. Pretty much everyone I knew was some shade of Left or liberal in their politics – there was general consensus about the need to fight poverty, inequality, religious intolerance, and caste and gender-based discrimination, even though there was wide disagreement about how to combat them.

Both my parents started off by studying economics in college but switched to political science when they did their Master's (which was also when they met). My father was interested in research and after a brief college teaching career, worked in various research organisations, and ran surveys for the DFID, the World Bank, and various government bodies. He eventually started his own research consultancy firm. He was a very quiet man who loved his work. Conversations with him shaped my values and overall thinking about the world. My mother taught political science in a college, and also was the most decisive influence on me when growing up, being a very strong-willed and independent woman.

What kind of pupil were you?

I went to Patha Bhavan in Calcutta, a liberal school which emphasised the overall intellectual development of students and extracurricular activities and thus stood out from other schools where board exam results and

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Professor Ghatak is an applied microeconomic theorist with research interests in economic development, public economics, and the economics of organisations. He has published numerous papers on microfinance, property rights, occupational choice, collective action, and the economics of NGOs and non-profits. He writes on economic and political issues for several newspapers and magazines including *NDTV.com*, *Ideas for India*, *The Wire*, *the Tribune*, *The Guardian*, *the Telegraph*, and the *Economic Times*.

In July 2018, he was elected Fellow of the British Academy (FBA).

placements to engineering and medical schools were the only metrics of success. I was good at creative writing and solving puzzles, and my grades were respectable but nothing outstanding. My mum jokes that the most frequent comment written in my report card was, "can do better". As a college teacher, she was really invested in my education, and my main motivation all through school was to avoid disappointing her!

I enjoyed science, especially physics and biology, and some of the puzzle-solving aspects of mathematics, but the standard science track that led to engineering or medical school did not attract me. Instead, I decided I wanted to study literature. My mother suggested economics as a compromise, hoping its combination of humanities and science would appeal to my burgeoning interest in politics and social justice, and might also lead to gainful employment in the future! I half-heartedly agreed to take mathematics and statistics for my A-level equivalent, so that I could keep my options open.

This brought me into contact with one of the most influential figures in my academic life, my high school maths teacher, Pinaki Mitra. He was a brilliant student of mathematics, who ended up teaching in high school instead of embarking on a research career due to family circumstances. Even though his teaching methods were unconventional, he managed to get me completely hooked on mathematics, absolutely fascinated by its elegance and precision. My interest in literature had always been general, rather than focused; I just liked to read. Now, with training in mathematics and statistics, I realised economics could give me a structured way to think about society. I wanted to see if I could understand how economies work and what kind of policies would make things better.

While I loved the beauty of mathematics and literature remained my first love, I became preoccupied with the glaring inequality and poverty around us. Poverty is all around you in Calcutta: the richest

families live right next to the poorest, so you grow up being exposed to it every day. However, I didn't really understand what inequality of opportunity actually meant until a family friend, whose NGO ran a school for slum kids, suggested I spent some time teaching there in the summer after I graduated from high school, before I started my economics degree at Presidency College in Calcutta.

My volunteering at the slum school was perhaps one of the most educative experiences of my life, albeit a very grim one. I taught mathematics to a small group of 10-11 year-olds. All of them were very friendly and eager to learn. Some of them were really bright, and they made the biggest impact on me, because I knew they had no chance of going further with their education: they would drop out of school soon to earn a living, before even turning sixteen. The experience left me feeling very unhappy with a system that produced this kind of an outcome; a system in which peoples' prospects were dictated solely by the accident of birth and not by merit.

In Presidency College, I was fortunate to have an excellent set of teachers. Our charismatic head of the department, Dipak Banerjee, had done his undergraduate degree from LSE with what Lionel Robbins described as an unbroken string of A's, and was known for his wit and erudition. After a period of flirting with political activism, I focused on my studies and ended up topping the exams at the University of Calcutta, to which Presidency College was affiliated. I then went to the Delhi

School of Economics to study for my Masters. Once again, I had an excellent set of teachers and peers. I topped the University exams again and so you could say that my school teachers were right after all – I could do better!

It was during my master's degree that I finally developed a passion for Economics that was comparable to what I felt for mathematics and statistics earlier. By this time, I was no longer considering whether to do a PhD and pursue an academic career, but rather where to apply and how to go about it. I applied to several US universities, including Harvard, Princeton, Yale, and Columbia, and was offered full fellowships by all of them. I ended up going to Harvard. Along with MIT it was considered one of the top places for an Economics PhD. It was relatively rare to get a full fellowship from there, and so that was my lucky break!

How did your research interests develop at Harvard?

At a place like Harvard, the first reaction for most students is being dazzled by the range of choices, with leading economists in almost all subfields of the discipline, offering exciting courses. I first went through a phase of focusing on micro theory, with teachers like Andreu Mas-Colell, Eric Maskin, and Oliver Hart. Then I got into macro theory, taking courses with Robert Barro and Greg Mankiw.

My lucky break at Harvard was the arrival of Abhijit Banerjee as an Assistant Professor, moving from Princeton, who offered, along with Jonathan Morduch, a new course in Development Economics. It exposed us to recent theoretical work that applied models of contracting and game theory to understand developing country institutions such as informal credit and insurance, and sharecropping tenancy as second-best responses to imperfect information, transactions costs, and insecure property rights.

In other fields of economics there is relatively little discussion of market failure beyond the routine discussion of monopoly, monopsony, monopolistic competition, and oligopoly as arising from the exclusive ownership of some resource, economies of scale, or government regulation. They are presented as aberrations and not inherent in the hidden wiring and circuitry of economic institutions that underpin



University of Calcutta



the grand abstraction called the “market economy” relating to property rights, transactions, and contracting, as well as the flow of information.

The new approach to development economics not only provided a natural explanation for market failures in general, but also why this problem is likely to be more severe in developing countries with their imperfect legal systems and rampant political interference in the economic domain.

This is how I came to realise that development economics was the right field for me. To use a medical analogy, to understand how a human body works, we need to study both healthy individuals but also those who are ill or malnourished. For me Development Economics was the study of different ways in which individuals and societies are prevented from reaching their full potential.

Like many students switching from exam-taking mode to research-mode, I was initially unsure what to write my thesis on. Luckily, I had two very patient mentors: my chief supervisor Eric Maskin, who won the Nobel Prize in 2007, and Abhijit Banerjee soon moved to the neighbouring MIT as a senior faculty member but continued to act as my mentor and co-supervisor.

My first research paper was on the (then) newly emerging phenomenon of microcredit. Pioneered by Muhammad Yunus through the Grameen Bank of Bangladesh that he founded, small loans were given to poor rural women who were not creditworthy to standard lenders.

The interesting feature that caught my eye (and of others who were also working on it) was that the borrowers were asked to form self-selected small groups with group members being jointly liable for each other’s repayment. I showed theoretically that if borrowers have information about each other that the lender does not have access to, then this could be a way of inducing borrowers to screen out bad risks. This could explain why Grameen had such high repayment rates, even though the loans were non-collateralised.

The main chapter of my thesis was joint work with Abhijit (with Paul Gertler joining as a co-author at a later stage) where we studied theoretically and empirically a tenancy reform programme that was carried out in the state of West Bengal in India (where both of us happened to be from) that gave sharecropping tenants permanent tenure and put a ceiling on the crop-share that the landlord could charge as rent. This paper was my first foray into empirical work as well as a field survey, both of which proved to be incredibly valuable experiences in what became a recurrent theme in my subsequent research – a continuous back-and-forth between theory and evidence to understand economic phenomena.

The final chapter of my thesis was not directly connected to Development. I was fascinated by the economics literature on discrimination (racial, gender etc) that started off with the fundamental question (with important contributions by Gary Becker, Kenneth Arrow, and Edmund Phelps) that whatever might be people’s attitudes, how can discriminatory behaviour survive in the marketplace?

I theoretically showed that if some people have discriminatory attitudes (so that they are less likely to hire minority workers, given the option) that can influence the hiring decision of neutral employers, effectively spreading the “contamination” if labour markets are subject to informational frictions, as opposed to being washed away by forces of competition as argued by Gary Becker, which holds only under the assumption of perfect information.

The reason is, workers who face such prejudicial behaviour from some employers irrespective of their job performance effectively have lower incentives to perform when given the opportunity, since the market would discount their “good reputation”.

Why did you choose to go to Chicago after Harvard?

After I was awarded my PhD, I entered the job market. I was fortunate to get job offers from several very good places. The front-runners for me were Chicago, Yale, and LSE. I felt a connection with LSE because Tim (Besley) was here, and he was a co-author of my co-supervisor Abhijit Banerjee – they had been colleagues at Princeton. Tim and I hit it off immediately and that was the beginning of a one of the most fruitful long-term research collaborations for me, one that continues to date.

There was something about the general feel about LSE that I found very attractive. The Economics Department didn’t have a nice building at the time, but it had a welcoming and vibrant atmosphere, and during my visit, I recall having stimulating conversations with Tim, Nobu Kiyotaki, John Moore, Kevin Roberts, and John Sutton. It struck me that although they were very impressive people, they were also very approachable. I left London feeling it would be a comfortable environment for me, although I must admit the salary offered was not great, and I was at a stage in my life when I needed to take that side of things into account too.

On the other hand, Chicago had a fascinating aura: it was the bastion of free market economics, Milton Friedman, Ronald Coase and Friedrich Hayek (who had been at LSE earlier) were there, and given my left-wing family background, it

was the more intellectually adventurous choice. I was ready for a challenge, so I took the Chicago offer.

Was Chicago the adventure you hoped it would be?

Yes, it was! Chicago was a fantastic learning experience for me. I was totally immersed in the kind of economics I simply hadn't come across at Harvard. There is a certain way of thinking about the world at Chicago which is very simple and structured, and at the same time, very powerful, whether you agree with it or not. The essence of it is that markets, not governments, are the best device to promote growth, efficiency, and liberty. Also, the Chicago style of economic analysis showed how some basic principles like supply and demand, the law of arbitrage, and the concept of compensating differentials can be applied to a whole range of economic and policy issues, from discrimination to negative income taxes as a way of providing support for the poor without perverse work incentives.

How did Chicago change you as an economist?

A fair bit – I jokingly refer to my views as a continuous argument between a Calcutta Leftist and a Chicago Libertarian. Before Chicago, my approach had been to concentrate on the standard trade-off between equity and efficiency. In Chicago, I began to appreciate the importance of individual freedom and choice as another

critical dimension in evaluating policies. The problem with central planning is not just a problem of information and incentives, as Hayek had emphasised, but lies in its suppression of individual freedom and choice as well. For every market failure there may be an appropriate regulation, but regulations are often enforced in a coercive way and that is a trade-off one has to be mindful of. Milton Friedman's famous argument that without economic freedom, one cannot have political freedom started to resonate with me. Growing up in a left-wing environment, I never trusted big business; in Chicago I started being sceptical of big government.

But the problem with the Chicago tradition is that it boils everything down to incentives, which involves a rather narrow view of individuals as only being concerned with their economic self-interest. Also, it pays insufficient attention to the problem of unequal opportunity – poverty is often equated with low productivity.

I tend to agree more with the view of people like Thomas Piketty that wealth and privilege create a certain self-sustaining dynamic: if you don't have access to those benefits, the capitalist system does not offer a level playing field. I continue to think that Marx and Keynes had important insights on the broad dynamics of capitalism as a system, especially when in crisis, as in 2008. I continue to think great inequality of income and wealth are a natural by-

product of a market economy, and unless checked, it can devour both the free market system and democracy.

However, as far as the micro-workings of the economy are concerned, I think Coase and especially Hayek, and later Friedman and Becker had lots of important insights about the limits of government intervention in the market. Alan Blinder, a Princeton economist, has a book titled *Hard Heads, Soft Hearts*, and that is closer to my approach to economic policy these days: yes, markets and incentives are important, but you also want an inclusive and caring society, where people don't starve or freeze to death in the streets.

I had been at Chicago for five years when LSE offered me a senior position at a salary that was sufficient for me to support myself in London. This time, I accepted the offer, and joined the Department of Economics in 2002.

What was it like making the transition from Chicago to LSE?

It was very easy: the intellectual atmosphere at LSE was different from that of Chicago, but very similar to what I had known at Harvard. At Chicago, academic debates between colleagues were highly combative. In some seminars you felt like you were in the Wild West! Whereas at LSE and Harvard, debate tends to be less bruising, though extremely robust.

One of the things I really like about LSE is that it doesn't rest on its laurels. Maybe it's because LSE has an underlying value



system in which people are appreciated not just for what they have done in the past, but for the work they are doing now, as well as for their future potential. This leads to quite a relaxed academic climate. When Chris (Pissarides) got the Nobel Prize, we were very proud of it but didn't suddenly start treating him with particular deference in meetings and seminars. When Tim was recently knighted, of course we were all very pleased for him, but we do not pass up an opportunity to rib him if he shows up very formally dressed.

Even though we don't make a fuss about it, LSE does have a history to be proud of: apart from the illustrious founders, the Webbs and (George Bernard) Shaw, some of the greatest economists of the modern era have worked here: Ronald Coase, Friedrich Hayek, John Hicks, James Meade, Arthur Lewis, Amartya Sen, and George Akerlof to name just a few. Tony Atkinson, who passed away only last year, was here, too: he was one of my genuine heroes.

The development economists here have maintained an extremely eclectic approach to the field, rather than following the fashionable trends, so there's a breadth to the research we do here that I really like. I've been at LSE for 16 years now, and although I have had the occasional tempting offer from other universities, I really do feel at home here.

What parts of your own research do you think have been the most significant or impactful?

It is hard for me to answer this question. Citations are a standard metric of impact within the academic world, but they reflect both the quality of the work and how popular a topic is at any given time, given the interests of others. Any assessment of this kind can only be made by others and that too with the distance of time. If I go by citations, my work on microcredit that I started while in graduate school has been successful.

Part of the reason is the topic of microcredit became huge. It was relatively less known in the 90s when I started working on it, but somehow caught the imagination of the policy world, culminating in the Dr Yunus' Nobel Peace Prize in 2006 and that generated a lot of interest in how that particular

lending model worked. I have continued to work on the topic of microcredit, with my most recent work trying to understand the emergence of for-profit microcredit organisations.

The other strand of my work that has been successful in terms of citations is my work with Tim that we started when I moved to LSE that looks at incentive and organisation design when economic agents are "motivated" by considerations other than money, such as, their commitment to a mission (think of teachers, doctors) and performance is hard to measure. We study the interplay of intrinsic motivation and extrinsic incentives, asking questions like, how do organisations make use of these motivations, especially those that provide goods and services that have significant social returns not captured in private returns.

This is part of a broader research agenda that emerged out of our attempts to understand the problem of incentives and accountability in the provision of public services, as well as to understand organisations in the third-sector, namely private non-profit organisations as well as social enterprise, which are different from both government organisations or standard for-profit firms.

The work on tenancy reform that I did as part of my PhD has also been relatively successful in terms of citation, and I have continued to work on the broad topic of property rights. The other broad area of my research is to understand occupational choice in the presence of credit market frictions that prevent the efficient matching between potential and resources. In such a world there may not be a trade-off between equity and efficiency. Inequality may have a negative effect on efficiency, since those born with more resources will have an unfair advantage that is not justified by productivity.

This relates to some of the original questions that got me interested in Economics – the causes and consequences of poverty. In this context, I am very excited about some very recent work I am doing with my colleagues Oriana Bandiera and Robin Burgess and our students Clare Balboni and Anton Heil, on testing for poverty traps using the

results of a randomised control trial in Bangladesh that gave individuals a one-time transfer of capital and studied their asset accumulation behaviour over time.

Wider policy impact is always hard to evaluate, because academic economists are engaged on theoretical and empirical research. Can I point to a paper I have published that has directly contributed to making peoples' lives better? I can't, and neither can most academic economists. Instead, it's a slow iterative process of theory telling us what we should expect in the data, data throwing up puzzles, modifying the theory and looking again at the data, until we get to a point where we can be reasonably confident that we have a relatively sound answer to a particular question.

In this context, I should mention that in the recent years I have been regularly writing policy relevant essays, op-eds, and blogs where I try to address a broader audience. Some of this involves making policy-relevant insights from my own research accessible to a broader non-specialist audience. Some of this also involves engaging with some of the policy debates of the day (such as Brexit or the Indian government's decision to suddenly declare high-denomination currency notes to be invalid) and applying simple economic logic or very cursory look at data to dispel popular misconceptions or add important nuances missed out in debates in the public domain.

On a scale of 1-10, how weird are you?

Oh, 7, maybe! But it all depends on the benchmark. My daughters gave me a mug a few years ago that says "The weirdest dad in the world", and they meant it as a compliment, referring to my sense of humour and the pranks I pull on them: it is a compliment to be thought of as a bit weird, isn't it? I would like to think that I'm weirder than I probably am, but I fear I'm relatively staid. I do have a taste for absurd humour (think, for example, of Groucho Marx) and enjoy throwing people off with weird analogies in debates so that they don't know whether to laugh or be mad at me. Perhaps a 6.5?