

# Three US economists win Nobel for work on asset prices

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In this Monday, June 15, 2009, file photo, Rober Shiller, a professor of economics at Yale, participates in a panel discussion at Time Warner's headquarters in New York. Americans Shiller, Eugene Fama and Lars Peter Hansen have won the Nobel Memorial Prize in Economic Sciences, Monday, Oct. 14, 2013. (AP Photo/Mark Lennihan, File)

Three American professors won the Nobel prize for economics Monday for shedding light on how stock, bond and house prices move over

time— work that's changed how people around the world invest.

Two of the winners—Eugene Fama, 74, and Lars Peter Hansen, 60—teach at the University of Chicago. The third, Robert Shiller, 67, is a professor at Yale University and is well-known as a creator of the well-known Case-Shiller index of home prices.

The three economists were honored for separate research that collectively expanded the understanding of asset prices.

Beginning in the 1960s, Fama showed that prices change so quickly and efficiently to reflect new information that investors can't outperform markets in the short term. This was a breakthrough that helped popularize index funds, which invest in broad market categories instead of trying to pick individual winners.

Two decades later, Shiller reached a separate conclusion: That over the long run, markets can often be irrational, subject to booms and busts and the whims of human behavior. The Royal Swedish Academy of Sciences noted that the two men's findings "might seem both surprising and contradictory."

Hansen developed a statistical method to test theories of asset pricing.

The three economists shared the \$1.2 million prize, the last of this year's Nobel awards to be announced.

"Their methods have shaped subsequent research in the field and their findings have been highly influential both academically and practically," the academy said.

Monday morning, Hansen said he received a phone call from Sweden while on his way to the gym. He said he wasn't sure how he'll celebrate

but said he was "still working on taking a deep breath."



In the Tuesday, Oct. 26, 2010, file photo, Robert Shiller, professor of economics at Yale, speaks at the Buttonwood Gathering, in New York. Americans Shiller, Eugene Fama and Lars Peter Hansen have won the Nobel Memorial Prize in Economic Sciences, Monday, Oct. 14, 2013. (AP Photo/Mark Lennihan, File)

Shiller, famous for having warned against the bubbles in technology stocks and housing that burst over the past two decades, said he responded with disbelief when he received a phone call about the Nobel.

"People told me they thought I might win," Shiller told The Associated

Press. "I discounted it. Probably hundreds have been told that."

Of the three winners, Fama was the first to expand the knowledge of how asset prices move. His work helped revolutionize investing by illustrating how hard it was to predict the movement of individual stock prices in the short run. It was a finding that spurred wider acceptance of index funds as an investment tool.

Shiller showed that in the long run, stock and bond markets tend to behave more irrationally than economic fundamentals would suggest. That encouraged the creation of institutional investors, such as hedge funds, that take bets on market trends.

In the late 1990s, Shiller argued that the stock market was overvalued.

"And lo and behold, he was proven right" when the dot-com bubble burst in 2000, said Nobel committee secretary Peter Englund.

"He also predicted for a long time that the housing market was overvalued, and again he was proven right," Englund said. The U.S. housing market suffered a crash in 2007 that helped fuel the global financial crisis.

Englund said he believes the three laureates agree on the findings for which they were awarded, even though Fama and Shiller have different "interpretations of the real world."

"It's no secret that for Eugene Fama, the sort of null hypothesis is that markets work well and he is willing to believe that until he is proven otherwise, whereas for Robert Shiller, I think his null hypothesis is that there are periods of excessive optimism and pessimism," Englund said.

The Case-Shiller index, a leading measure of U.S. residential real estate

prices, was developed by Shiller and Karl Case, a Wellesley College economist.

In the 1980s, Hansen developed a statistical method to better assess theories such as those of Fama and Shiller.

"These are three very different kinds of people, and the thing that unites them all is asset pricing," says David Warsh, who tracks academic economists on his Economic Principals blog.

Fama said his work came at a time when computers were starting to be used by statisticians and economists. Many of them were studying stock prices because they were the most easily available data.

On Monday morning, Fama was preparing to teach his first class as a Nobel laureate. Asked whether his students would get any break, he said: "We'll see, but they're going to get an exam tomorrow anyway. They paid their money; they're going to get the full pill."

Shiller noted that if regulated properly, global finance is "at the core of our civilization."



In this Tuesday, April 22, 2008, file photo, economist, author and Yale University Professor Robert Shiller talks about the economy in New Haven, Conn. Americans Shiller, Eugene Fama and Lars Peter Hansen have won the Nobel Memorial Prize in Economic Sciences, Monday, Oct. 14, 2013. (AP Photo/Douglas Healey, File)

"It seems to some people, it's selfish and money-grubbing," he said. "It doesn't really have to be that way. The financial crisis we've been through is traumatic, but we're learning from it."

For example, he said many students from other countries are able to study in the United States because of financial aid made possible by

investments. He also noted that the Consumer Financial Protection Bureau, established as a result of the recession, is holding finance to higher standards.

Americans have dominated the Nobel in economics in recent years. The last time there was no American among the winners was 1999.

The Nobel prizes in medicine, chemistry, physics, literature and peace were created by Swedish industrialist Alfred Nobel in 1895. Sweden's central bank added the economics prize in 1968 as a memorial to Nobel.

This year's Nobel science prizes awarded ground-breaking research on how molecules move around inside a cell, particle physics and computer modeling of chemical reactions. Canadian short-story writer Alice Munro won the Nobel Prize in literature and the Organization for the Prohibition of Chemical Weapons was awarded the Nobel Peace Prize.

All awards will be presented to the winners amid royal pageantry on Dec. 10, the anniversary of Nobel's death in 1896.

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