

Speaker's manuscript, slide show

The 2017 Economics Prize

Title slide

Now the world has found out who will receive the 2017 Prize in Economic Sciences.

Today you will learn more about the background of the Nobel Prize and about this year's Economics Prize.

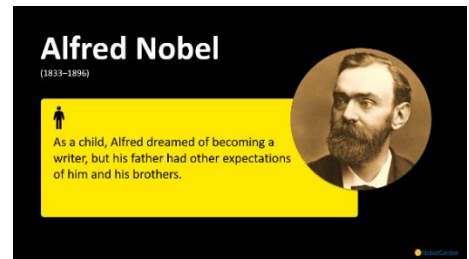


Alfred Nobel

Alfred Nobel was born in Stockholm, Sweden on October 23, 1833.

As a nine-year-old, he moved together with his older brothers and his mother to Saint Petersburg, the capital of Russia at that time. There his father Immanuel had started a factory.

In St. Petersburg, Alfred received a good education and dreamed of becoming a writer. Alfred's father made him study natural sciences and technology instead, since he and his brothers were expected to take over the family's factory.



Dynamite

Alfred Nobel, his father and his brother Emil tried to invent an explosive that was safer than pure nitroglycerine. It was very dangerous to use nitroglycerine as an explosive – so dangerous that Alfred's brother Emil died in an explosives accident in 1864.

But Alfred finally succeeded in developing a method for producing nitroglycerine and a way to use it as an explosive.

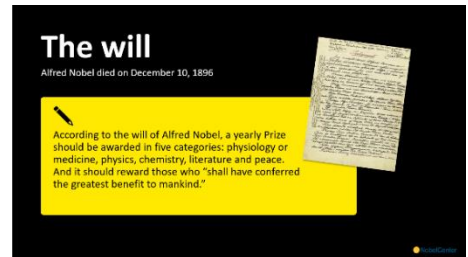
He named his invention "Dynamite" in 1867. Dynamite was a comparatively safe explosive. It was in huge demand during the period of industrialisation, since there was so much construction work. By taking out patents on many of his ideas, Alfred earned a lot of money and started many factories around the world.



The will

Alfred Nobel died of a stroke on December 10, 1896. He had no children, so in his will he wrote that a large part of his fortune should be placed in a fund. The yearly interest on this fund would pay for a prize given to “those who, during the preceding year, shall have conferred the greatest benefit to mankind.”

The interest would be divided into five equal parts, but Economic Sciences was actually not one of Nobel’s five original Prize categories. Instead it was added later. The first Nobel Prize was awarded in 1901. Since then, more than 900 Prizes have been awarded to different people and organisations.



The Nobel Prize Award Ceremony

On December 10 each year, the Nobel Prize is presented. This year the Prize in each category consists of a medal, a diploma and nine million Swedish kronor – or over a million US dollars.

The Prize Award Ceremony is held at Stockholm Concert Hall for all categories except the Peace Prize, which is awarded in Oslo, Norway. After the actual Award Ceremony, there is an elegant Banquet in each city to honour the new Nobel Laureates.

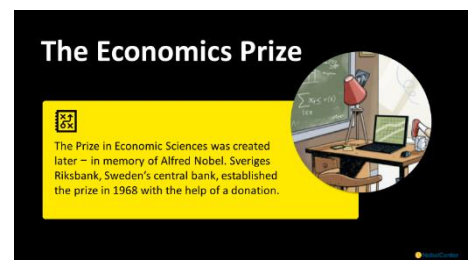


The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel

Alfred Nobel was a leading industrialist and a successful inventor. At his death in 1896 he owned a total of 96 Nobel companies in 20 countries. At his death, Nobel was one of the richest people in Europe.

The will of Alfred Nobel did not include economics as one of the Prize categories. Instead Sveriges Riksbank – Sweden’s central bank – established the Prize in Economic Sciences in Memory of Alfred Nobel, with the help of a donation related to the bank’s 300th anniversary in 1968. The Prize was awarded for the first time in 1969.

The Prize is awarded to a person or persons who have produced works of outstanding importance in the field of economic sciences.



Previous Laureates

Well-known Laureates in Economic Sciences include Gunnar Myrdal (1974), who showed the interrelations between economic, social and political processes; Elinor Ostrom (2009), who analysed economic governance by the commons; and Daniel Kahneman (2002), who used research in both psychology and economics in order to understand human decision-making.



The 2017 Laureate

This year's Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel has been awarded to Richard H. Thaler "for his contributions to behavioural economics."

One area of economics focuses on understanding how people think when they make various economic decisions. Thaler's work and research have helped us to understand the role of psychology in economics.

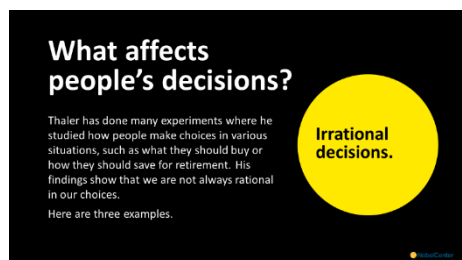


What affects people's decisions?

Richard H. Thaler, who was born in 1945 in New Jersey, is Professor of Behavioural Science and Economics at the University of Chicago, where he has done research since 1995. Early in his career, Thaler developed an interest in what affects people's economic decisions.

Traditional economic theory often assumes that people are rational: that they have a good overview of their situation and can make logical, carefully reasoned decisions about what they should do with their money.

Thaler has done many experiments where he has studied how people make choices in different situations. His findings show that we are not always rational in our choices. The following are three examples of what affects us when we make decisions in various circumstances.

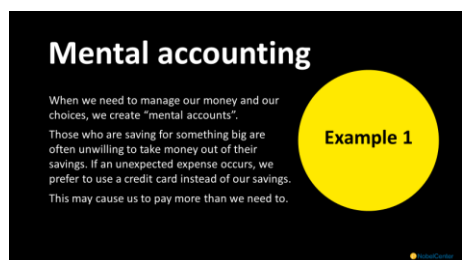


Mental accounting

In one of his studies, Thaler examined how taxi drivers make economic decisions with the help of what he calls "mental accounting".

When it rains, more customers want to ride taxis and it is easier for drivers to earn a lot of money per hour. It would thus make the most sense to work more hours when it rains and to take time off when the weather is nice. But instead, the taxi drivers in Thaler's study had a kind of unstated target amount for what they should earn every day. This meant that they drove shorter work shifts when there were lots of customers and longer shifts on days with few customers.

Setting up mental accounts thus affects our choices to a great extent; this applies not only to taxi rides but also to saving and spending. If we are saving for a long-term goal – such as a holiday trip – we are often unwilling to take money from our savings. This behaviour may lead us to pay more than we need to, just to avoid taking money out of our savings account.

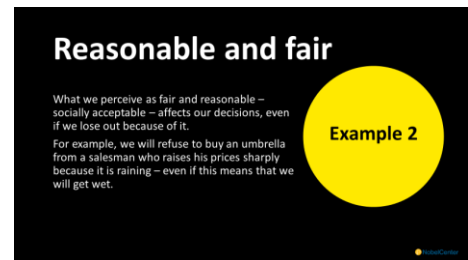


Reasonable and fair

Perceptions about what is reasonable and fair also affect our decisions, Thaler's studies have shown.

It turns out that we care about fairness, even if we lose out because of it. One example is the people who sell umbrellas on the street. It would be rational for them to raise the price sharply if it starts raining hard.

Research shows that if the seller does this, his umbrellas will still not sell – not because the price in itself is too high, but because consumers would rather get wet than reward the seller's greed. These effects have been measured both in experiments and field studies.



Reasonable and fair

What we perceive as fair and reasonable – socially acceptable – affects our decisions, even if we lose out because of it.

For example, we will refuse to buy an umbrella from a salesman who raises his prices sharply because it is raining – even if this means that we will get wet.

Example 2

Lack of self-control

Together with other economists, Thaler has also shown how lack of self-control affects our decisions. One example is how we think of sweets. Sweets may be perceived as good when we eat them, but we know that in the long term they are not good for our bodies. Still, we sometimes choose a short-term reward instead of a long-term one.

Mental accounting may be one way to avoid choosing a short-term reward, for example by deciding in advance that we will spend only a certain amount on sweets.



Lack of self-control

Together with other economists, Thaler has created models showing how poor self-control affects our decisions.

When we make decisions, we often prioritise a short-term reward over a larger, more long-term one.

Example 3

The benefits

Using large-scale experiments, where people make real choices that have real outcomes, Thaler shows how we humans make decisions. His research findings indicate how our society can be organised better, so that those of us who are not always rational and far-sighted can make better decisions without thereby restricting everyone else's freedom of choice.



The benefits

Thaler's research findings give us insights about how our society can be organised to enable us to make better long-term decisions.

Models for better decisions.