Nobel Prize 2026 Lecture

Robert Hall [1] Michael Woodford [2]

[1]Stanford University
[2]Columbia University

Lecture by Jack Liang

Join the Theta of PA chapter of Omicron Delta Epsilon (ΟΔΕ)

- Undergraduate Membership Requirements
  - Strong interest in Economics
  - Completion of 12 hours of economics courses at time of application
  - Cumulative GPA of at least 3.0
  - GPA of at least 3.0 in economics coursework

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- Graduate Membership Requirements
  - Completion of one semester of full-time coursework
  - A major or minor in economics
    - GPA of at least 3.0

Please contact Chapter President katherine.riley0001@temple.edu or Faculty Advisor dimitrios.diamantaras@temple.edu with any questions.



Women in Economics - Temple University

Temple University
College of Liberal Arts | Economics



- Fosters representation and inclusion of women in Economics
- Creates an environment for women to actively engage in Economics
- Establishes a peer network for women who are majors/minors/have a general interest in Economics
- Provides mentoring for women within the field.

When: Every Wednesday from 5 PM - 6 PM
Where: Fishbowl, 2nd Floor, Gladfelter Hall

Scan to Join Women in Econ

Weekly meetings: Fridays, 12-12:50pm, Alter Hall 239

SCAN ME

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  - *Notable Speakers: Jerome Powell, Chief Economist of FORD*

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***Additional Payments may be required**

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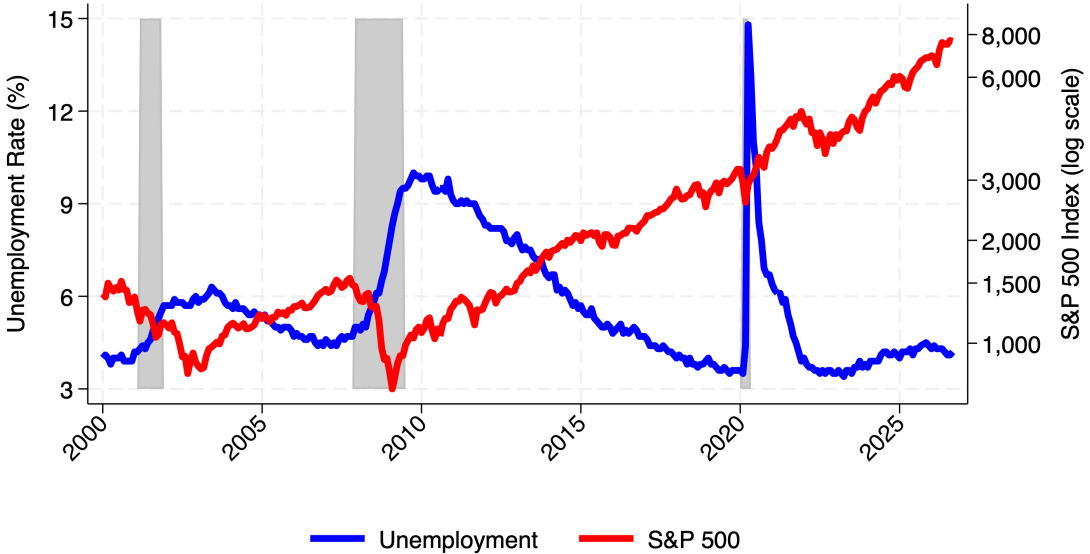
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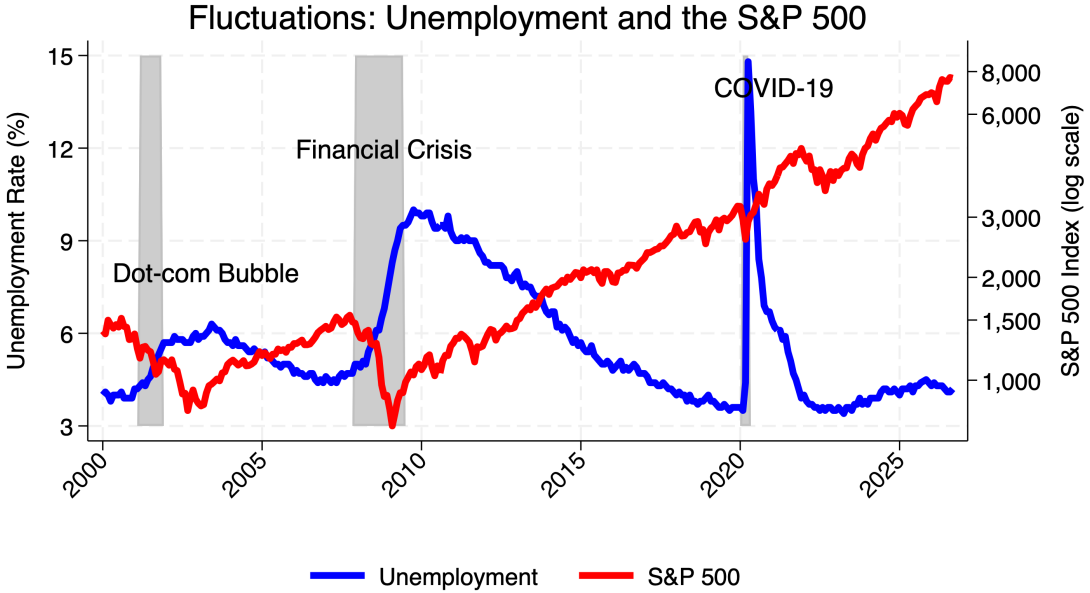
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  - Often are very difficult to predict
  - Have very real consequences for people (households) and firms

Fluctuations: Unemployment and the S&P 500



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- Idea: steady economy is better than a roller coaster
- Question: how should stabilization policy be designed?

The Prize

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- Together: laid the foundation of the **New Keynesian** paradigm
  - Models built *from the bottom up*, from decisions of households and firms
  - Now used by central banks and finance ministries worldwide

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- Worked well enough. . . until it didn't

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- What went wrong?

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- People adapt to the rules, so changing the rules changes the behaviour you're trying to predict
  - Example: do police speed-traps really reduce speeding?

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- In ECON 1101, this is simple: just sum across consumers, firms
- In practice, much more complex:
  - Firms respond to aggregate consumption by changing prices, factor demand
  - Consumers respond to changes in prices, income

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  - How do we prove this?
    - What beliefs about the future do households have?
    - Impact of changes in beliefs on consumption occurs when new information arrives, rather than when the uncertain event itself unfolds

Hall: Clear Evidence for Forward Looking Households

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- Hall: empirical evidence in the US shows that known variables do *not* predict future consumption

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- Methodological: clever test of existing, difficult to prove theory
  - Didn't ask: "what can the data tell us"
  - Use model structure to show that "what *can't* the data tell us" is just as important

Woodford: the New Keynesian Model

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- Critical: *aggregation* of consumers and firms delivered a clean set of equilibrium conditions
  - Able to take decisions by "micro" agents, and determine how they interacted with "macro" policies

Woodford: Key Equilibrium Equations

- Dynamic Investment-Savings Curve (from consumers):

$$x_t = \mathbb{E}_t[x_{t+1}] - \frac{1}{\sigma}\left(i_t - \mathbb{E}_t[\pi_{t+1}] - r_t\right)$$

- New Keynesian Phillips Curve (from firms):

$$\pi_t = \beta \mathbb{E}_t[\pi_{t+1}] + \kappa x_t$$

- Monetary Policy (Taylor Rule, set by monetary authority):

$$i_t = \rho + \phi_\pi \pi_t + \phi_x x_t + \nu_t$$

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  - Many, many more...

Conclusion

- Stabilization policy: smooth the booms and busts of the economy
  - 1970s: models built on "stable" statistical correlations failed
  - Needed new, micro-driven tools to understand macro consequences
- Hall: consumption reveals expectations; changes should be unpredictable
- Woodford: a three-equation, bottom-up model for policy
  - Used widely by economists both in academia and at the Fed