

## Nobel Prize for Economic Sciences

By IAS Toppers | 2021-10-12 17:40:00



## Nobel Prize for Economic Sciences

The 2021 Nobel Prize for economic sciences has been awarded in one half to Canadian **David Card** and the other half jointly to Israeli-American **Joshua D Angrist** and Dutch-American **Guido W Imbens**.



[Ref: Hindustan Times]

### **Major Highlights:**

- **David Card** has been awarded the 2021 prize "for his empirical contributions to labour economics."
- **Joshua D Angrist** and **Guido W Imbens** got the prize "for their methodological contributions to the analysis of causal relationships."
- The prize winners will share a sum of 10 million Swedish crowns or \$1.14 million.

### **Card: Wages and Jobs**

- Card's use of "natural experiments" is exemplary and his studies from the early 1990s challenged conventional wisdom, leading to new analyses and additional insights.
  - **For example:** It is believed that raising minimum wages lead to lower employment.
  - Card showed that increasing the minimum wage does not necessarily lead to fewer jobs.

### **Angrist, Imbens: Education, Pay**

- They are recognised for their methodological contributions to the analysis of causal relationships.
- They helped make sense of the data from such natural experiments.
- **For example:** Extending compulsory education by a year for one group of students may or may not affect everyone in the groups in the same way.



**The Issue:**

- Some students would have kept studying anyway and, for them, the value of education is often not representative of the entire group. So, is it possible to draw any conclusions about the effect of an extra year in school?

**Result:**

- In the mid-1990s, the duo solved this problem, demonstrating how precise conclusions about **cause and effect** can be drawn from natural experiments.

**Why this year's prize Matters?**

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| <ul style="list-style-type: none"><li>• Modern economics has increasingly been struggling in reconciling textbook wisdom and the real world.</li><li>• The Nobel Committee made a big signal on this count in 2019 when it awarded the prize to Abhijit Banerjee,</li></ul> | <p>Esther Duflo and Michael Kremer for popularising the Randomized Control Trials (RCTs), a technique usually deployed in medicine, in answering economic questions.</p> <ul style="list-style-type: none"><li>• This year's prize, in recognising that "natural</li></ul> | <p>experiments help answer important questions for society" has underlined that RCTs need not be the end-all and be-all of economic methods.</p> <ul style="list-style-type: none"><li>• However, it also underlines the importance of rigour in arriving at conclusions.</li></ul> |
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**The India context:**

- In India, it is commonly held that higher **minimum wages** will be counterproductive for workers.
- From Card's work it can be stated that minimum wages can be increased in India without worrying about reducing employment.
  - Minimum wages in India are very low with the national minimum wage at just Rs 180 per day.

**Importance:**

- Since, India has a minimum wages code; it will extend to unorganised sector workers. So, **enhancing** minimum wages is important to improve incomes in the **unorganised sector**.