



In 2010 the Society of Labor Economists presented the Sherwin Rosen Prize to Robert Shimer, for outstanding contributions in the field of labor economics.

Shimer received his PhD from MIT in 1996; one of his advisors was Daron Acemoglu, winner of the inaugural Sherwin Rosen Prize in 2004. Shimer's work is mainly concerned with the implications of labor market frictions. Labor economists have always stressed the idea that the market for labor services is not at all like the ideal commodity market: workers and employers are heterogeneous, and matching them up is a costly and uncertain process. Shimer has published ten articles in five major journals on various aspects of this process. This body of work warranted his election as a Fellow of the Econometric Society only 10 years after his PhD.

Shimer's work demonstrates an unusual versatility, ranging from difficult theoretical questions to detailed analysis of microdata on labor market outcomes. A few examples can be mentioned briefly. The *Econometrica* (2000) paper with Lones Smith, "Assortative Matching and Search," extends Becker's analysis of assortative matching (of workers or spouses) to an environment in which matching takes time, so that there is an opportunity cost of waiting for an ideal match. Shimer and Smith showed that the introduction of search frictions makes the matching problem much more complicated, but they succeeded in establishing a set of conditions on the production function ensuring that there is positive assortative matching in equilibrium. This paper is already a classic.

The *Journal of Political Economy* (1999) paper with Acemoglu, "Efficient Unemployment Insurance," is a major contribution. Unemployment insurance makes sense only if workers are risk averse and if the process of matching workers and jobs involves an element of luck. Yet many papers dealing with unemployment insurance assume that workers are risk neutral (because models with risk aversion are very difficult). Acemoglu and Shimer present an illuminating analysis of a model with risk-averse workers and stochastic labor market matching. There is unemployment insurance financed by lump-sum taxes. In equilibrium, there are high-wage employers with long job queues and low-wage employers with short job queues. Employers make capital investments before knowing whether they will hire anyone. So if the hiring probability is low (meaning that the job queue is short), employers invest less, and the match is less productive. Workers are willing to accept less productive matches in exchange for lower unemployment risk. Then the introduction of an unemployment insurance program tends to increase output, because workers can afford to wait for jobs with longer hiring queues, and employers are thereby induced to make more productive investments in capital. The idea that unemployment insurance can improve efficiency by promoting better matches is an old one, but what this paper achieves is a way of making this idea precise, so that one can study, for example, what the ideal level of unemployment insurance is.

The *Quarterly Journal of Economics* (2001) paper, "The Impact of Young Workers on the Aggregate Labor Market," asks whether the baby boom caused an increase in the unemployment rate, using variations in the timing of the baby boom across states to explain variations in state unemployment rates. The empirical results are surprising: an increase in the relative size of the young population may actually cause the youth unemployment rate to fall, because of a thick market externality in the market for young workers.

The *American Economic Review* (2005) paper, "The Cyclical Behavior of Equilibrium Unemployment and Vacancies," shows that the standard (Mortensen-Pissarides) model of unemployment completely fails to explain the observed volatility of unemployment. We have a good model of the labor market frictions that prevent the economy from ever reaching a state in which everyone in the labor force is fully employed. But we do not know why these frictions should sometimes cause the unemployment rate to rise far above its normal level. Even though this paper was published quite recently, it has already generated a large literature, and the so-called Shimer Puzzle continues to be an area of active research.

Shimer is a perceptive and constructive critic of research presented by other economists. He is apparently incapable of sitting through a research presentation on almost any subject without contributing a stream of insightful and often witty remarks. He is an energetic and stimulating presence in any setting in which economic ideas are discussed, conveying an infectious enthusiasm for getting things right.

Shimer is the Alvin H. Baum Professor of Economics at the University of Chicago. He is a member of the American Academy of Arts and Sciences, a research associate of the National Bureau of Economic Research, and an editor of the *Journal of Political Economy*.

2010 Nominating Committee:
Daron Acemoglu

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