



The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2008

“for his analysis of trade patterns
and location of economic activity”



Paul Krugman

Born: 1953

Birthplace: United States

Nationality: US citizen

Current position:

Professor of Economics
and International Affairs,
Princeton University,
New Jersey, USA

OFFICE OF COMMUNICATIONS, PRINCETON UNIVERSITY

Speed read: Modelling trade in a world of plenty

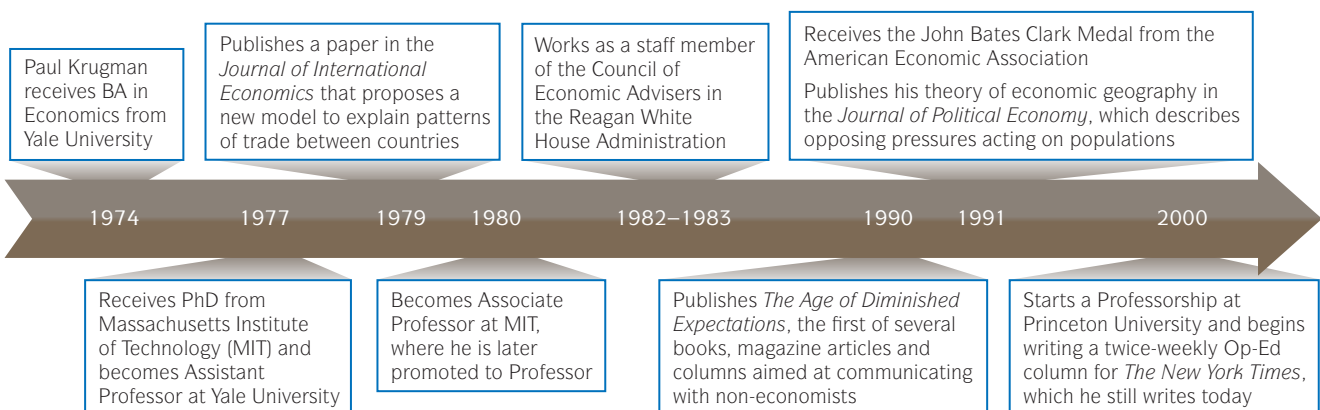


In a remarkably succinct, ten-page article published in 1979, Paul Krugman proposed a new trade model that changed the way economists view the international exchange of goods. At the heart of the model lay two concepts that reflected the general twentieth century trend towards having more: the increased production of goods, leading to economies of scale, and increased diversity of products, leading to greater choice for consumers. Krugman’s model better reflected the new pattern of international trade that had developed in a world where less certainly wasn’t more.

His model sought to explain the situation in which countries that are similar benefit by producing and trading in similar goods. Thus, cars are manufactured in France, Germany and Italy, with each country benefiting from the economies of scale delivered by mass production, and the citizens of each country benefiting from the increased choice that arises from having a global motor industry. Previous trade models

had emphasised the importance of the differences between countries, with international trade being based on the production of different materials in each country to fulfil unmet needs in others. Krugman’s development of a rigorous framework for describing the real world situation formed the basis for an explosion of subsequent analysis.

The 1979 paper in the *Journal of International Economics* also sowed the seeds of an analysis of the forces driving increased urbanization. In his *core-periphery model*, which he developed properly in a 1991 publication, Krugman describes the opposing pressures that act on populations: those that serve to pull them into the core (urban) centres and those that work to push them out into the peripheral (agricultural) areas. For example, one such factor is the cost of transport, and the generally decreasing transport costs seen in the twentieth century have served to pull production, and populations, into urban centres. Once again, Krugman’s formulation of a robust model provided the apparatus that allowed a thorough exploration of the factors driving the global distribution of production facilities, and of the urbanisation that is such a prevalent feature of the modern world.



Timeline: Milestones for the 2008 Economics Laureate, Paul Krugman.

In his own words: Paul Krugman

Paul Krugman had been anticipating an interesting day on the morning that he received the phone call from the Economics Prize Committee. Krugman was in Washington DC for a meeting associated with the World Bank and International Monetary Fund; a meeting occurring hours after emergency packages had been announced in Europe aimed at preventing banks from collapsing in the economic downturn. “I thought that was going to be the exciting thing today, but it didn’t quite turn out quite as planned.”

As a journalist, columnist and blogger for *The New York Times*, Krugman has become one of the best known popularisers of economic ideas, but the 2008 Prize in Economics acknowledges his models on economic theory that, as he says, showed “why countries might trade even if they have the same climate, and the same resources, and the same technology.”

Krugman developed his models to explain why jobs and businesses are becoming increasingly concentrated in certain places such as cities. “The reason why 80 million people live in a fairly narrow corridor along the East Coast of the United States is not that there’s something especially favourable about the geography, but it’s simply the agglomeration force. Essentially each of those 80 million people is there because the other 80 million people are also there.”

According to Krugman the value of creating these mathematical models is that “once you have the clear statement of how the pieces fit together you can apply it to numbers, you can use it to try to assess the welfare impact of different trade policies.” In other words, people could now think more clearly about international trade, says Krugman. “It required the math to get to the plain English.”

“I’ve gone somewhat beyond my role as an economist in the column but, hey, economists are people too, and are citizens too, and have political opinions”



Paul Krugman’s models explain why jobs and businesses are increasingly becoming concentrated in urban areas.

When asked how easy he found the move into journalism, Krugman says he believes the task of boiling down an intellectual problem to its essence through economic models and the task of

explaining a complex problem in simple language are related.

“I always felt that what I do when I try to explain, say, the financial crisis in 800 words, and what I do when I try to model the financial crisis in a half-dozen equations, are very much the same kind of effort.”

To some extent the consequence of trying to explain things clearly

has led Krugman to recently adopt a more political stance on issues in his newspaper columns. He was an early critic of the Bush administration because his economics background led him to conclude that they were being dishonest about budget arithmetic. “I’ve gone somewhat beyond my role as an economist in the column but, hey, economists are people too, and are citizens too, and have political opinions.”



This article is based on a telephone interview with Paul Krugman following the announcement of the 2008 Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel. To listen to the interview in full, visit http://nobelprize.org/nobel_prizes/economics/laureates/2008/krugman-interview.html