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Nobel economics prize: Peter Diamond, Dale Mortensen and Christopher Pissarides share award

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STOCKHOLM -- Two Americans and a British-Cypriot economist won the 2010 Nobel economics prize Monday for developing a theory that helps explain why many people can remain unemployed despite a large number of job vacancies.

Federal Reserve board nominee Peter Diamond was honored along with Dale Mortensen and Christopher Pissarides with the 10 million Swedish kronor (\$1.5 million) prize for their analysis of the obstacles that prevent buyers and sellers from efficiently pairing up in markets.

Diamond - a former mentor to current Federal Reserve chairman Ben Bernanke - analyzed the foundations of so-called search markets, while Mortensen and Pissarides expanded the theory and applied it to the labor market.

Their work, dating back to the 1970s and '80s, sheds light on why the classical view of markets, in which prices are set so that buyers and sellers always find each other and all resources are fully utilized, doesn't always apply to the real world.

One example is the housing market, where buyers can struggle to find new homes even though there are a number of unsold

properties available.

Another is the labor market. Because searching for jobs takes time and resources, it creates friction in the job market, helping explain why there are both job vacancies and unemployment simultaneously, the Royal Swedish Academy of Sciences said.

"The laureates' models help us understand the ways in which unemployment, job vacancies and wages are affected by regulation and economic policy," the citation said.

Their work resulted in the so-called Diamond-Mortensen-Pissarides model, a frequently used tool to estimate how unemployment benefits, interest rates, the efficiency of employment agencies and other factors can affect the labor market.

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"One conclusion is that more generous unemployment benefits give rise to higher unemployment and longer search times," the academy said.

Diamond, 70, is an economist at the Massachusetts Institute of Technology, and an authority on Social Security, pensions and taxation.

President Barack Obama has nominated Diamond to become a member of the Federal Reserve. However, the Senate failed to approve his nomination before lawmakers left to campaign for the midterm congressional elections.

Senate Republicans have objected to what they see as Diamond's limited experience in dissecting the inner workings of the national economy.

Bernanke was one of Diamond's students at MIT. When Bernanke turned in his doctoral dissertation back in 1979, one of the people he thanked was Diamond for being generous with his time and reading and discussing Bernanke's work.

Pissarides, a 62-year-old professor at the London School of Economics, was the first Nobel winner with Cypriot citizenship, academy spokesman Erik Huss said.

Speaking from his north London home, Pissarides told The Associated Press the announcement came as "a complete surprise"

though his work had already helped shape thinking on both sides of the Atlantic.

For example, the New Deal for Young People, a British government initiative aimed at getting 18-24-year-olds back on the job market after long spells of unemployment, "is very much based on our work," he said.

Mortensen, 71, is an economics professor at Northwestern University in Evanston, Illinois. He is currently a visiting professor at the University of Aarhus in Denmark, where the academy reached him by phone as he was having lunch with colleagues.

Mortensen told AP he was asked not to share the news until the announcement in Stockholm 30 minutes later.

"So I was sitting there at the table and I think they knew from the smile on my face what had happened. Everyone knows this is the day," he said.

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Diamond wrote a paper in the early 1980s that found that unemployment compensation can lead to better job matches. Workers "become more selective in the jobs they accept" because of the employment aid. And, that makes for better matches and increases efficiency, he found.

He told a Senate committee during his nomination hearing in July that a central theme of his research has been how the economy deals with risks that affect both individuals, and the entire economy.

"In all my central research areas, I have thought about and written about the risks in the economy and how markets and government can combine to make the economy function better for individuals," he said in that hearing.

The economics prize is not among the original awards established by Swedish industrialist Alfred Nobel in his 1895 will, but was created in 1968 by the Swedish central bank in his memory.

The economics jury was the last of the Nobel committees to announce 2010 winners.

Last week, British professor Robert Edwards was awarded the Nobel Prize in medicine for his fertility research that led to the first test tube baby. Russian-born scientists Andre Geim and Konstantin Novoselov won the physics prize for groundbreaking experiments with graphene, the strongest

and thinnest material known to mankind.

The chemistry award went to Richard Heck and Japanese researchers Ei-ichi Negishi and Akira Suzuki for designing techniques to bind together carbon atoms.

Peruvian novelist Mario Vargas Llosa won the literature prize and the imprisoned Chinese democracy campaigner Liu Xiaobo was named the winner of the Nobel Peace Prize.

The awards are always handed out on Dec. 10, the anniversary of Nobel's death in 1896.

Associated Press Writers Malin Rising in Stockholm, Jan M. Olsen in Copenhagen, Denmark; Jeannine Aversa in Washington, Raphael Satter in London and Menelaos Hadjicostis in Nicosia, Cyprus, contributed to this report.

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