



Nobel Prize in Economic Sciences 2022

For Prelims: Nobel Prize 2022, Banking System

For Mains: Nobel Prize 2022, Significance of Banking System in Economy

Why in News?

The **Royal Swedish Academy of Sciences** has decided to award the **2022 Sveriges Riksbank Prize in Economic Sciences** in Memory of **Alfred Nobel** to **Ben S. Bernanke, Douglas W. Diamond** and **Philip H. Dybvig** “for research on banks and financial crises.”

- **The 2021 Nobel Prize in Economic Sciences** was awarded in one half to **Canadian-born David Card** (labor economics) and the other half jointly to **Israeli-American Joshua D Angrist and Dutch-American Guido W Imbens** (analysis of causal relationships).
- Other 2022 Nobel Prizes for **Literature, Chemistry, Physics, Medicine** and **Peace** have already been announced.

Note

Unlike the other prizes, the **economics award wasn't established in Alfred Nobel's will of 1895** but by the **Swedish central bank** in his memory. The first winner was selected in **1969**.

What Contribution have these Laureates made in the Banking System?

- **Ben S. Bernanke:**
 - Ben Bernanke analysed the **Great Depression of the 1930s**, the worst **economic crisis** in modern history.
 - Through statistical analysis, Bernanke demonstrated **how failing banks played a decisive role** in the global depression of the 1930s.
 - He showed **how bank runs were a decisive factor in the crisis becoming so deep and prolonged.**
 - It also helped in understanding the **importance of well-functioning bank regulation.**
 - Bernanke was the head of the US central bank, the **Federal Reserve**, when the **2008 crisis hit**, and was able to “**put knowledge from research into policy**”.
- **Douglas W. Diamond and Philip H. Dybvig:**
 - Both Diamond and Dybvig worked together to develop **theoretical models** explaining why banks exist, how their role in society makes them vulnerable to rumors about their impending collapse, and how society can lessen this vulnerability. These insights form the foundation of modern bank regulation.
 - They presented a **solution to bank vulnerability**, in the form of **deposit insurance**

- from the government.** When depositors know that the state has guaranteed their money, **they no longer need to rush to the bank** as soon as rumors start about a bank run.
- Diamond also showed **how banks perform a societally important function.** As intermediaries between **savers and borrowers**, banks are better suited to **assessing borrowers' creditworthiness** and ensuring that **loans are used for good investments.**

Infographics

UPSC Civil Services Examination Previous Year Question (PYQ)

Mains

Q. What policy instruments were deployed to contain the Great Economic Depression? **(2013).**

Source: IE

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