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Press Statement

INSTITUT ZUR ZUKUNFT DER ARBEIT
INSTITUTE FOR THE STUDY OF LABOR

Bonn - September 28, 2005

IZA Prize in Labor Economics 2005

Dale Mortensen and Christopher Pissarides honored for their contributions to the analysis of markets with search and matching frictions

The renowned IZA Prize in Labor Economics, which is awarded annually by the Institute for the Study of Labor (IZA), goes to **Dale T. Mortensen** (Northwestern University) and **Christopher A. Pissarides** (London School of Economics). The decision of the Prize Committee was announced by IZA Director **Klaus F. Zimmermann** in Bonn today. This year's IZA Prize honors the joint contributions of both economists to the analysis of search and matching behavior in the labor market. Their research findings are more relevant than ever in light of the current labor market reforms in Germany.

The work by Professors Mortensen and Pissarides has led to a better understanding of unemployment and job flows. Their models, which are now widely used in labor economics and macroeconomics, have highly enriched research on unemployment as an equilibrium phenomenon, on labor market dynamics and cyclical adjustment. They show how the intensity with which workers search and the decision when to accept a job offer determine the distribution of unemployment durations. A major policy implication is the insight how labor market institutions such as unemployment insurance, minimum wage laws or job centers can be used to influence unemployment durations. For instance, if the level of unemployment benefits or the entitlement periods are reduced, job seekers will increase their search intensity to shorten their unemployment spell. At the same time, firms will be more willing to offer additional jobs as they find it easier and less costly to fill their vacancies.

Dale Mortensen and Christopher Pissarides have not only advanced the methodology applied in labor economics. Their research findings also support the reform course initiated by the "Hartz" reforms of the German government, which include incentives to take up employment and efforts to reduce search costs through a more efficient job placement process in order to shorten unemployment durations.

The IZA Prize in Labor Economics, which carries a cash reward of 50,000 euros, is one of the most important scientific awards in economics worldwide. The official award ceremony will take place in Berlin on October 24 before an audience of invited guests from politics, business, academia, and society.