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Award Statement

2013 Prize Winner

Daniel S. Hamermesh

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Award Statement of the IZA Prize Committee

The 2013 IZA Prize in Labor Economics is awarded to Daniel S. Hamermesh (University of Texas at Austin; Royal Holloway, University of London) for his fundamental contributions to the analysis of labor demand. In his work, Hamermesh has demonstrated that many important topics in labor economics, such as the unemployment implications of minimum wages or job security programs, can only be understood within a framework that allows a thorough analysis of demand-side reactions in labor markets. Hamermesh's research is characterized by a focus on thought-provoking questions, a high level of creativity, and careful combination of theoretical and empirical methods. He has shaped the way other scholars, as well as policy makers, think about some of the key issues in labor economics.

The question how firms adjust employment in response to fluctuations in product demand and other exogenous shocks is of fundamental importance for assessing unemployment and labor market dynamics. Hamermesh was among the first scholars to point out the importance of detailed micro-level estimates of adjustment costs for understanding firms' demand for labor. In his article "Labor Demand and the Structure of Adjustment Costs" (*American Economic Review*, 1989), he used plant-level data to demonstrate that adjustment processes in individual firms occur in discrete jumps rather than continuously. A key reason for this effect is that firms face important fixed costs when adjusting their labor inputs. For instance, the costs of advertising vacancies and interviewing candidates do not depend – at least within certain ranges – on the number of workers that a firm seeks to hire. The presence of such fixed costs generates non-convex adjustment cost functions for firms, resulting in incentives to adjust their workforce in a "lumpy", non-continuous way. In contrast, most of the earlier labor demand models had neglected fixed costs in hiring and laying off workers, and instead assumed a convex variable cost structure, leading to smooth adjustments of factor inputs. Hamermesh's analysis also demonstrated that detailed establishment-level data is necessary to gain deeper empirical insights into the dynamic aspects of labor demand, and that the use of more aggregated data can be misleading. Hamermesh's findings led to a re-examination of the traditional labor demand model, and they have spurred the interest of many scholars in analyzing labor adjustments and their costs on a more fine-grained level.

Hamermesh also dealt with a variety of other fundamental issues in labor demand. For instance, he analyzed substitution patterns among workers of different demographic backgrounds; he studied the determinants of labor-demand adjustments at the extensive vs. intensive margin; and he contributed to a better understanding of how labor market institutions such as minimum wage laws affect labor demand. The increasing interest in labor-demand analysis spurred by his pioneering contributions, as well as subsequent work by others in the field, culminated in Hamermesh's book *Labor Demand* (1993). This book provides the most comprehensive overview on the theoretical contributions and key empirical findings on the topic to date.

Besides his long-standing interest in labor demand, Hamermesh pioneered the economic analysis of time-use data and contributed to a broad set of other topics in economics. He has a unique talent to use traditional economic rationales in novel and often surprising applications. Along the lines of his semi-popular book *Economics Is Everywhere* (2009), Hamermesh has analyzed, for instance, the economic determinants of suicide, the impact of beauty on individuals' labor market outcomes, and the question how umpires' ethnic preferences are expressed in their evaluation of Major League Baseball pitchers. In addition to his scientific achievements, Hamermesh is widely recognized as a mentor to many junior scholars. As the author of his own blog and a regular guest contributor to the popular *Freakonomics* blog, he has also helped communicate economic thinking to a wider audience.

Daniel S. Hamermesh is Sue Killam Professor in the Foundation of Economics at the University of Texas at Austin and Professor of Economics at Royal Holloway University of London. He earned his A.B. from the University of Chicago (1965) and his Ph.D. from Yale (1969). Before moving to Texas in 1993, he taught at Princeton and Michigan State. Hamermesh is a Research Fellow of the Institute for the Study of Labor (IZA), a Fellow of the Econometric Society and the Society of Labor Economists (SOLE), a Research Associate of the National Bureau of Economic Research (NBER), and Past President of SOLE and of the Midwest Economics Association. He received the Humboldt Foundation Research Prize in 2011 and the Mincer Award from the Society of Labor Economists in 2013.

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