

The Prize in Economic Sciences 2014

The Royal Swedish Academy of Sciences has decided to award the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel for 2014 to

Jean Tirole

Toulouse 1 Capitole University, France

“for his analysis of market power and regulation”

The science of taming powerful firms

Jean Tirole is one of the most influential economists of our time. He has made important theoretical research contributions in a number of areas, but most of all he has clarified how to understand and regulate industries with a few powerful firms.

Many industries are dominated by a small number of large firms or a single monopoly. Left unregulated, such markets often produce socially undesirable results – prices higher than those motivated by costs, or unproductive firms that survive by blocking the entry of new and more productive ones.

From the mid-1980s and onwards, Jean Tirole has breathed new life into research on such market failures. His analysis of firms with market power provides a unified theory with a strong bearing on central policy questions: how should the government deal with mergers or cartels, and how should it regulate monopolies?

Before Tirole, researchers and policymakers sought general principles for all industries. They advocated simple policy rules, such as capping prices for monopolists and prohibiting cooperation between competitors, while permitting cooperation between firms with different positions in the value chain. Tirole showed theoretically that such rules may work well in certain conditions, but do more harm than good in others. Price caps can provide dominant firms with strong motives to reduce costs – a good thing for society –

but may also permit excessive profits – a bad thing for society. Cooperation on price setting within a market is usually harmful, but cooperation regarding patent pools can benefit everyone. The merger of a firm and its supplier may encourage innovation, but may also distort competition.

The best regulation or competition policy should therefore be carefully adapted to every industry’s specific conditions. In a series of articles and books, Jean Tirole has presented a general framework for designing such policies and applied it to a number of industries, ranging from telecommunications to banking. Drawing on these new insights, governments can better encourage powerful firms to become more productive and, at the same time, prevent them from harming competitors and customers.

Jean Tirole, French citizen. Born 1953 in Troyes, France. Ph.D. 1981 from Massachusetts Institute of Technology, Cambridge, MA, USA. Scientific Director at Institut d’Économie Industrielle, Toulouse School of Economics, Toulouse 1 Capitole University, France.

www.idei.fr/vitae.php?i=3

Prize amount: SEK 8 million.

Further information: <http://kva.se> and <http://nobelprize.org>

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This year marks the 275th anniversary of The Royal Swedish Academy of Sciences. The Academy was founded in 1739 and is an independent organization whose overall objective is to promote the sciences and strengthen their influence in society. The Academy takes special responsibility for the natural sciences and mathematics, but endeavours to promote the exchange of ideas between various disciplines.