



# Spatial Economics Research Centre

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## Paul Krugman - Nobel Laureate

Paul Krugman has been awarded the 2008 [Nobel Prize in Economics](#) "for his analysis of trade patterns and location of economic activity".

Krugman is actually a pretty controversial character in the (small) world of academic economic geography. When he came up with the theory that led to the "New Economic Geography", he managed effectively to ignore several decades worth of work in geography and to focus on mechanisms that were considered "old hat". Traditional geographers did not like this one bit.

But to many economists, this one included, Krugman's work was a revelation. Relative to much of the existing literature, Krugman started with individuals: firms and workers (not "regions") as actors. Economic interactions between firms and their consumers (demand linkages) were put at the core of understanding divergent outcomes. As transaction costs fell, relocation of these firms and works could change regional economic environments leading to different development for initially similar regions. Outcomes could be "path dependent" so that history matters and similar changes need not always lead to the same outcomes. And these outcomes could be sub-optimal in terms of both efficiency and outcomes.

Krugman's work gives us all this in elegant mathematical models that increase our fundamental understanding of the forces that shape economic geography. His theories continue to inspire a generation of economists who are interested in understanding these forces. Together with developments in urban economics, Krugman's New Economic Geography revitalized research in to the nature, extent, causes and consequences of spatial disparities.

There is no doubt he will be a controversial choice. He has been a vocal critic of Bush. Non-economists don't like him. Even some "purist" economists might have a problem with the decision. But for those of us interested in the application of rigorous economics to real world problems the award is a very welcome one.

Posted by [Prof Henry G. Overman](#) on [Monday, October 13, 2008](#)



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