Klein's Contribution to Economics and University Penn through the International Economic Review

Harold Cole Editor of the IER

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The International Economic Review was founded in 1960 by Lawrence Klein and Michio Morishima.

They seemed to have first really gotten together at Oxford where Klein was hanging out after it became known that he had briefly been a member of the Communist Party.

And it continues as a joint venture between the University of Pennsylvania and Osaka University.

From the beginning Klein and Morishima envisioned a journal with broad interests and a strong concern with fundamental advances in the science of economics.

That vision led to the Journal's publishing a host of fundamental articles in Economics across a wide range of fields.

Klein in his memorial for Morishima mentioned several articles from the early editions to indicate both the Journal's breath and success.

Benoit Mandlebrot's stochastic processes for generating income distributions.

J. Harsanyi's generalization of Nash equilibria for game theory.

Paul Samuelson's analysis of the St. Petersburg Paradox

Kenneth Arrow's and Leonid Hurwicz's analysis of Stability and Weak Gross Substitutability.

H Nikaido's and H Uzawa's Stability in a Walrasian Tatonnement Process.

Herbert Scarf's Instability of Competitive Equilibrium.

These are some great papers:

In looking at some of the most cited papers in the IER over the years,

I wanted to add a few favorites of my own to his list.

A Limit-Theorem On The Core Of An Economy by Gerard Debreu and Herbert Scarf 1963.

Many different allocations can seem plausible. Which ones should we expect to see chosen in equilibrium. Competitive analysis with price-taking offers a very stark mechanism for answering this question. The Core, which captures a more game theoretic mechanism in which subsets of agents can reach agreements, can suggest other answers. In their classic paper, Debreu and Scarf showed that as the economy gets large, these two mechanisms will coincide in terms of their predictions.

This paper is a classic in General Equilibrium Theory.

Optimum Technical Change In An Aggregative Model Of Economic-Growth by Hirofumi Uzawa 1965.

This paper built upon the classic Solow model to ask: if technological progress was costly, how fast should it be. To address this question it posited a law of motion for technical progress which depended upon the share of labor devoted to education. He showed that the economy has a balanced growth path and would evolve towards this path over time.

This paper is a classic in Growth Theory.

General Competitive Analysis In An Economy With Private Information by Prescott and Townsend 1984.

This paper showed how we can extend competitive equilibrium theory to deal with private information. The novelty of their approach was that they used lotteries as commodities. The key to their positive results was that contracting took place prior to individuals realizing their private information, and that lotteries could be used to overcome their incentive constraints in a way that made the commodity space convex.

This paper is a classic in both General Equilibrium and Information Theory.

Econometric Issues In The Analysis Of Regressions With Generated Regressors by Pagan 1984.

This paper address the fact that forecasts appear in a fundamental way in many models that we wish to estimate. Since forecast generally cannot be directly observed, a natural way to generate these forecasts is using standard forecasting methods. But then, we are generating some of the variables in the relationship we are estimating. This paper established conditions in which such a two-step estimation procedure was consistent or efficient, and when standard statistical inference could be undertaken.

This paper is a classic in econometrics, and its results provide a rationale for a key practice in taking modern models with rational expectations to the data.

Many of our most cited articles are by current and former Penn faculty:

1. Evaluating Density Forecasts With Applications To Financial Risk Management by Diebold Gunther and Tay 1998. #11
2. Wage Differentials, Employer Size, And Unemployment by Burdett and Mortensen 1998. #14
3. The Terms Of Trade, The Real Exchange-Rate, And Economic-Fluctuations by Mendoza 1995. #38
4. The Effect Of Parental Transfers And Borrowing Constraints On Educational Attainment by Keane and Wolpin 2001. #50
5. Priors From General Equilibrium Models For Vars by Del Negro and Schorfheide 2004. #67
6. An Equilibrium Model Of The Business Cycle With Household Production And Fiscal Policy by McGrattan, Rogerson and Wright 1997. #84

Which reflects how the IER was fundamental to Penn's success.

The IER created the Klein Lecture annual series which has featured many of the most prominant names in economics. I have listed below a few who have gone on to win Noble prizes.

1. Ed Prescott 1997
2. Jim Heckman 2001
3. Chris Pissarides 2006
4. Eric Maskin 2007
5. Chris Sims 2010

The current members of the IER team will try to stay true to his vision:

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