Economics is “a social game” for Ed Prescott. Ideas are the ball. Prescott knows how to play the game pretty well. In fact, he is one of the best players in the world. In 2004, ideas that Prescott developed with colleague Finn Kydland earned them both the Nobel Memorial Prize in Economic Sciences.

Edward C. Prescott is a Regents Professor of Economics at Arizona State University’s W. P. Carey School of Business. He says that the knowledge creation process is often social. “It’s like pick-up basketball or bridge,” he says. “Getting together and talking about a problem—that’s a social game.”

Prescott’s colleagues say that the ideas he and Kydland developed have transformed macroeconomic research and profoundly influenced economic policy—especially in the area of monetary policy. Their formula for the business cycle would cover an entire panel of a blackboard.

Yet ideas, even those as complex as Prescott and Kydland’s, often have their origins in a conversation. Some of those talks, with friends like 1995 Nobel laureate Robert Lucas of the University of Chicago, are fast-paced and stimulating. “It’s not like you quickly agree or disagree, but before you know it you’re right in there,” Prescott laughs. “It keeps you honest—if you don’t articulate something really well they pick up on it.”

The ASU professor’s delight in discovering and shaping ideas in collaboration with others defines him as a researcher and a teacher. He points out that most of his papers are written with a co-author. “Research is an interactive human activity,” he says. “Without the other party there would not be a paper.” Prescott is also a collaborator when he is teaching. He regards his students as colleagues.

“Ed is a collaborator in every sense of the word,” says Arthur Blakemore, chairman of the department of economics at ASU. “When reading his autobiography for the Nobel Prize, one is struck by the importance he puts on his association with people and how he recalls what he learned from each of them. They became collaborators and prized friends.”

In return, Prescott is a mentor of graduate students and colleagues in his own right. “Possibly no one’s students in the profession in recent years have had as large an impact on the profession as his have had,” Blakemore adds.

Prescott spends half his time at the Federal Reserve Bank in Minneapolis and half at ASU, where he holds the W. P. Carey Chair in Economics. In both places, Prescott is known for his early work hours and for his late morning break, when he heads down the corridor and appears in the offices of colleagues and doctoral students. He uses these visits to try out a new idea or grill them on a project.

“Anytime between 9 a.m. and 11 a.m. he’ll pop in to see what we’re up to, or to talk about what’s going on in the news,” says Kathryn Koenders, a fourth year doctoral student in economics. Later, Prescott can be found in a circle of economics professors grabbing lunch at the Memorial Union, or sipping espresso on the Dean’s Patio with a colleague.

Prescott arrived at ASU in 2004 from the University of Minnesota, where he had been on the faculty since 1980. Shortly after joining the Minnesota faculty he accepted an additional position at the Minneapolis Federal Reserve Bank. He continues to serve as a senior monetary advisor there.

During his career, Prescott has taught as a faculty member at the University of Chicago, Carnegie-Mellon University, and the University of Pennsylvania. When he decided to move to ASU and the W. P. Carey School of Business, he was already on a short list of contenders for the Nobel Prize. The excitement came to Arizona with him.

In December 2004, the highly anticipated call from Stockholm came through on Prescott’s cell phone, and ASU was privileged to share the international spotlight.

In the year-plus since the Nobel ceremony, Prescott has spoken in more than 40 cities scattered around the world. The honor has given him access to some of the world’s most influential people, and a platform for his ideas.
My view is that economists should educate the people so that they can evaluate macroeconomic policy rules.

EDWARD PRESCOTT
The ASU professor described the galas that surrounded the Nobel ceremony in Stockholm as unbelievable. “I never knew the Nobel Prize would be such a big deal,” he says.

In Thailand, after speaking at a fundraising event for tsunami victims, Prescott met for 90 minutes with King Rama IX, who has been on the throne since June, 1946. The president of the Czech Republic warned him about the perils of rhetoric when discussing economic issues. And the prime minister of Sweden shared his pride in the work he had accomplished on behalf of the Central Bank of Europe.

In May 2006, Prescott was one of a group of 13 prominent economists, including eight Nobel laureates, who lectured in Beijing. Prescott was appointed to represent the group in a meeting with the premier.

Back at ASU, Prescott confides that he is glad to be working on his research. He recently submitted for publication a paper he co-authored with Ellen McGrattan, a colleague from the Minneapolis Fed who is teaching at the W. P. Carey School in 2006. And he is happy to be in front of a classroom.

He teaches a doctoral seminar and an upper division undergraduate class called “Advanced Topics.” Prescott loves teaching. He says that some of his most important work has grown out of the questions that students have asked in class. In fact, he believes that there’s no separation between research and teaching.

“One of the best ways to learn is to teach, and another way is to be in a course where the professor is learning,” he says. “If the professor has everything down—if he is very organized and has every drawing just so—there’s none of the thinking, organizing, or developing that results when the professor is learning along with the students. It becomes a memorizing exercise—you may as well read a book.”

Koenders is Prescott’s graduate assistant. She says that he creates a confident, easy-going learning atmosphere in his class. Students are always going to the board to work out problems, she says. But it’s not intimidating because in Prescott’s classes students are encouraged to help each other.

Prescott’s purpose in teaching undergraduates is to shape them into educated policymakers. “He gets students to analyze policy decisions, and decide if it’s a good policy or a bad policy,” Koenders says.

At the end, he wants them to be able to evaluate economic policy recommendations and understand why policy advocates support certain measures.

Prescott believes that good economic policy depends on a citizenry that is economically literate and able to analyze policy proposals for themselves. “My view is that economists should educate the people so that they can evaluate macroeconomic policy rules. The people, through their elected representatives, should pick the policy rule.” Prescott wrote in his Nobel Prize address.

Economists think in terms of trade-offs, he explains. “There are no bad guys or good guys—rather there are groups of people pursuing self interest, interacting.” Because of this, it’s not a good idea to set up a system that defers decisions to experts, he says.

“They have their interests, and often—inevitably—these systems get corrupted,” Prescott explains. “They will convince themselves that what happens to be in their self interest is really the best thing to do for the people they are serving.”

Prescott’s commitment to students is also rooted in his desire to develop the next generation of economic researchers. A colleague once remarked that Prescott’s former doctoral students, if gathered together, would comprise a top 10 economics department. However, the attention that has come Prescott’s way because of the Nobel Prize has not distracted him from his focus on the science of economics and the people who pursue it.

“Other than traveling around the world more frequently than he had before, Professor Prescott is the same dedicated scholar and teacher that he was before receiving one of the world’s most recognized and respected honors,” says Robert Mittelstaedt, dean of the W. P. Carey School. “He continues to move his research in new and important directions. He is generous with his time for students at all levels. He is an inspiring and approachable colleague.”

In a profession becoming more and more specialized, he is capable of adding to any conversation on economics on virtually any subject, Blakemore adds. “Graduate students and undergraduate students are treated the same way; they are expected to be able to think about, and discuss, any topic. They are challenged by his desire to think deeply about topics and his willingness to collaborate on ideas and research,” Blakemore says.

In the end, for Prescott, what matters is the science. He’ll tell you that in the social game that is economics, winning is advancing the science.

“If somebody else makes the advance, you say hallelujah then, too.”