

Professor Roger Myerson, Nobel Prize on Economy analyzes the foundations of the institutions, at the EEA-ESEM 09 in Barcelona

Barcelona, Monday, August 24, 2009

What: Econometric Society Presidential Address "Understanding the Foundations of Institutions: Moral Hazard in High Office" delivered by Nobel Prize 2007 Roger Myerson at the Annual Congress of the European Economic Association and the European Meeting of the Econometric Society ([EEA-ESEM 09](#)) Joint Meeting hosted by the Barcelona Graduate School of Economics ([GSE](#))

When: Monday August 24, 18:15h

Where: GSE Bellaterra Campus

Roger Myerson, Professor of Economics at University of Chicago, delivered the ES Presidential Address this afternoon at the [EEA-ESEM 09](#) which is taking place in Barcelona till next Thursday 27th August. This joint meeting gathers together 1800 experts from around the world and it is organized by the Barcelona Graduate School of Economics ([GSE](#)).

In his lecture Roger Myerson showed that that moral-hazard problems are fundamental in any institution, and that their solution requires networks of leadership and personal trust. fundamental in any institution, and that their solution requires networks of leadership and personal trust (moral hazard: risk of misbehaviour).

Myerson' talk was based on the study of the feudal institutions of old England and of its two main actors: the prince and the governors of the different provinces.

To simulate how these institutions worked, he created suitable mathematical models taking into account different parameters, namely whether governors may be paid or dismissed, if they can behave well or misbehave (not being honest) or even rebel or be punished.

Out of the different proposed models, Myerson concluded that a governor's promises of future credit must be trusted and valued as rewards for current service. In addition, the prince must be a trusted debtor to his agents.

Myerson extrapolated his model to today's situation where the governors are now managers. Finally he also emphasized that moral hazard is an essential concern in a financial system that allocates vast amounts of other people's wealth. Moral-hazard

rents make trusted bankers a privileged elite, but in a regulatory framework where privileges depend on good performance.

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About the conference host:

The Barcelona GSE is a research university institute founded in 2006 that brings together four public academic institutions (UAB, UPF, IAE-CSIC, CREI) in a public-private partnership to promote graduate education and research in economics and social sciences.

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