Acceptance speech
21 de septiembre de 2021

Nobuhiro Kiyotaki, awardee in the Economics, Finance and Management category (13th edition)

It is a great pleasure and an honor to receive the BBVA Foundation Frontiers of Knowledge Award. I owe many people intellectually and personally who helped shape my academic career. When I was a junior and senior undergraduate student at the University of Tokyo, I participated in the reading course of Hirofumi Uzawa. We met twice a week for two hours or more and read papers of Metzler, Tobin and others. We were also assigned to develop models out of Keynes' General Theory. Although mostly we did not succeed, we learned that monetary economy is much more interesting and delicate than a standard competitive economy, because such an economy would be severely disrupted once a large fraction of assets stops circulating. We also argued that perhaps the only way to make sense of the principle of effective demand is monopolistic competition. While spending three more years in the graduate program there, I realized that I needed to be independent from Uzawa to develop my career further and decided to go to a graduate program in the United States.

At Harvard, I was fortunate to work under the supervision of Andrew Abel and Olivier Blanchard. When I was a second-year student, Olivier asked me "What do you want to work on your thesis?" I answered "I want to introduce banks into macro," and tried to lay out my idea of modeling banks as screening agents. Olivier said "That's not interesting." I did not fully agree but agreed with Olivier that my idea of banking at that time was too obscure and there was no clear path to provide new insight into macroeconomics. So, I decided to go for plan B and wrote the Ph.D. thesis titled "Macroeconomics of Monopolistic Competition."

My job search in the junior market was not very successful until I met Mark Gertler at Wisconsin. When Mark offered me an assistant professorship, I was so happy and accepted it immediately. Besides Mark, I was lucky to be with Kenneth Rogoff and Rao Aiyagari as my senior colleagues. After I published a couple of papers out of my thesis, I began to think it was too simplistic to analyze aggregate fluctuations and macroeconomic policies by a representative agent general equilibrium model with sticky price. Perhaps the American Keynesian tradition that follows Samuelson's famous undergraduate textbook misses something important; that is rich interaction between liquidity, asset prices and business cycles. For this reason, I went back to the research on the interaction between financial frictions and aggregate production, and started working on foundation of monetary theory with Randall Wright.

After meeting with John Moore at LSE, we started exploring into how shocks to technology, distribution and liquidity lead to large fluctuations of aggregate economic activities, and how monetary policy may smooth the fluctuations. When we completed the paper "Liquidity, Business Cycles and Monetary Policy," I said to Uzawa in my mind, "Here is my answer to one of your assignments." I still do not have satisfactory answers to so many questions. I would like to continue my inquiry into the mystery of the decentralized economy, in which the circulation of money is essential for better resource allocation.