

# Princeton University

HONORS FACULTY MEMBERS  
RECEIVING EMERITUS STATUS



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The biographical sketches were written by colleagues  
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# PAUL R. KRUGMAN



Paul Krugman will transfer to emeritus status at the end of the current academic year, after spending 15 years on the Princeton faculty. It is no exaggeration to say that Paul is one of the leading economists and one of the leading public intellectuals of his generation.

Paul grew up on Long Island, earned his B.A. at Yale, and received his Ph.D. from the Massachusetts Institute of Technology in 1977. After teaching at Yale for three years, he returned to MIT, where he revolutionized the field of international trade theory. A short stint at Stanford and a return engagement with MIT were followed by the longest stretch of his academic career, which he spent at Princeton with a joint appointment in the economics department and the Woodrow Wilson School. Of course, Paul is equally well known for his “other career,” as an outspoken opinion writer for *The New York Times*.

Paul was awarded the Nobel Memorial Prize in Economic Sciences in 2008 for his work on international trade with increasing returns to scale. When Paul came to the field, the traditional theory of trade based on the 19th-century writings of David Ricardo explained trade by differences between countries that generated a comparative advantage for each. But Paul (and others) noticed the tension in the fact that a majority of trade took place between similar countries, with similar factor endowments and access to similar technologies. Surely, something else besides comparative advantage must be at the root of such trade. Moreover, traditional trade theory emphasized interindustry trade, with countries specializing in the production of some goods and exporting them in exchange for others. In fact, much of actual trade was intra-industry; countries imported and exported different varieties of relatively similar goods that fell into the same industry classification. Paul developed an elegant theory of international trade based on economies of scale and product differentiation. The existence of scale economies internal to the firm limited the extent of product differentiation that the market

could support. But trade allowed countries to consume varieties that were not produced locally. Countries trade in order to take advantage of a larger world market and all gained from the greater diversity in consumption and potentially from longer production runs. Soon, Paul's models formed the core of the "new trade theory," which rapidly generated a paradigm shift in thinking about trade that persists today.

Paul's work on "new trade" led relatively quickly and naturally to his 1991 monograph *Geography and Trade*, which soon spawned the "new economic geography." In his monograph and a nearly contemporary paper in the *Journal of Political Economy* on "Increasing Returns and Economic Geography," Paul developed a now-famous "core-periphery model" in which economies of scale in manufacturing interact with transport costs to generate the agglomeration of economic activities in a few large markets, leaving the periphery with the residual, constant-returns-to-scale activities. He demonstrated the possibility for cumulative causation in which the core grows large, because a large market is attractive to businesses, which want to locate near to their customers. In the process, the periphery can be left behind, even if the periphery is no different from the core at the beginning of the process. Soon, an army of regional and urban economists were running with his ideas, much as had been true in the trade field just a decade earlier.

Although Paul is probably best known among economists for his work on trade and geography, several of his papers on issues in international macroeconomics are equally elegant and influential. His 1979 paper on balance of payments crises was an instant classic. Here Paul modeled the dynamics of collapse of an overvalued fixed exchange rate. He recognized that forward-looking speculators would anticipate the eventual depletion of foreign exchange reserves, and in the process of seeking capital gains, would attack the currency and hasten its revaluation. Another beautiful piece is his paper on exchange rate target zones. When a government seeks to keep the exchange rate within a band, it becomes more likely to intervene as the rate moves closer to the edge of the band. Anticipating the government's intervention, speculators will reduce their holdings near the top of the band, thereby stabilizing the currency and obviating the need for

government intervention. Here, as elsewhere, Paul combined amazing intuition with parsimonious modeling that clarified events in the real world and that inspired much further research by others.

In 1996, Paul began to write extensively for a wider audience, publishing a monthly column for the online magazine *Slate*. So cogent were his discussions of economic issues for non-economists that soon he was appearing in *Fortune*, *The New Republic*, *Newsweek*, and *The New York Times Magazine*. Then, in 1999, he joined the editorial page of *The New York Times*, where he has published two articles per week ever since. His columns, often controversial and never boring, have energized the intellectual left and appear regularly on *The New York Times* list of most emailed articles.

Paul has written 22 books, ranging from undergraduate textbooks such as *Economics* (with Robin Wells) and *International Economics: Theory and Policy* (with Maurice Obstfeld and Marc Melitz) to popular treatises such as *Pop Internationalism*, *The Conscience of a Liberal*, and, most recently, *End This Depression Now!*, to monographs aimed at a professional audience, such as *Market Structure and Foreign Trade* (with Elhanan Helpman) and *The Spatial Economy* (with Masahisa Fujita and Anthony Venables). His seminal research papers appeared in the leading economics journals, as well as in *Science* and *Scientific American*. In addition to the Nobel Prize, he was awarded the John Bates Clark Medal by the American Economic Association, awarded to “that American economist under the age of forty who is judged to have made the most significant contribution to economic thought and knowledge,” the Adam Smith Award, awarded by the National Association of Business Economics for “leadership in the profession and the application of economic principles and knowledge in the workplace and policy arenas,” as well as numerous other professional accolades.

At Princeton, Paul has taught a wide variety of courses, including “Introductory Macroeconomics” and “International Monetary Theory and Policy” in the economics department and “International Trade Policy” and “The Economics of the Welfare State” in the Woodrow Wilson School. His latest course, “The Great Recession: Causes and Consequences” is a tour de force that

has attracted more than 100 students in each of the last two years and provided them with a lasting memory of impressions from one of the most erudite commentators on the topic.

Paul leaves Princeton with emeritus status to join the Graduate Center of the City University of New York and the Center's Luxembourg Income Study Center. There, he will continue to study income inequality and other concerns about the modern economy and to contribute to the public discourse on these and other matters.