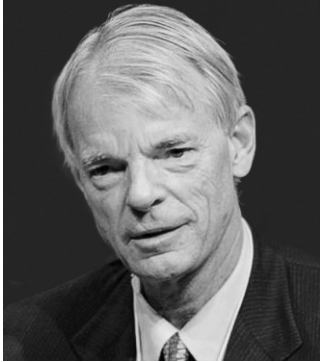


Michael Spence

Nobel Laureate 2001



Michael Spence (born November 7, 1943) is an American-born, Canadian-raised economist and recipient of the Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel, along with George A. Akerlof and Joseph E. Stiglitz, for their work on the dynamics of information flows and market development. He conducted this research while at Stanford University.

In 1966, Spence was awarded the Rhodes Scholarship upon graduation from Princeton University with a BA degree in Philosophy. His postgraduate degrees are University of Oxford (B.A., M.A. in Mathematics, 1968), and Harvard University (Ph.D. in Economics in 1972). He taught at Harvard and at Stanford University, serving as Dean of the latter's business school from 1990 to 1999. In 1982, he received the John Bates Clark Medal for economists under age 40. Through his research on markets with asymmetric information, Spence developed the theory of "signaling" to show how better-informed individuals in the market communicate their information to the less-well-informed to avoid the problems associated with adverse selection. In his 1973 seminal paper "Job Market Signaling," Spence demonstrated how a college degree signals a jobseeker's intelligence and ability to a prospective employer. Other examples of signaling included corporations giving large dividends to demonstrate profitability and manufacturers issuing guarantees to convey the high quality of a product.

Michael Spence is probably most famous for his job-market signaling model, which essentially triggered the enormous literature in this branch of contract theory. In this model, employees signal their respective skills to employers by acquiring a certain degree of education, which is costly to them. Employers will pay higher wages to more educated employees, because they know that the proportion of employees with high abilities is higher among the educated ones, as it is less costly for them to acquire education than it is for employees with low abilities. For the model to work, it is not even necessary for education to have any intrinsic value if it can convey information about the sender (employee) to the recipient (employer) and if the signal is costly.

Spence is the Chairman of the Commission on Growth and Development, Professor Emeritus of Management in the Graduate School of Business at Stanford University. He is a senior advisor at Oak Hill Investment Management, a consultant to PIMCO and a Senior Fellow of the Hoover Institution at Stanford.

He served as dean of the Stanford Business School from 1990 to 1999. From 1984 to 1990, Spence served as the Dean of the Faculty of Arts and Sciences at Harvard, overseeing Harvard College, the Graduate School of Arts and Sciences, and the Division of Continuing Education. He is a Fellow of the Econometric Society and the American Academy of Arts and Sciences. He serves on the boards of Genpact, Mercadolibre, the Stanford Management Company (the university endowment), The International Chamber of Commerce Research Foundation, and a number of private companies.

