

Tom Sargent and Chris Sims by Lars Hansen

I have known Tom Sargent and Chris Sims since I was a graduate student at the University of Minnesota in the mid 1970's. I was research assistant for both of them, Sims became my advisor, Sargent was a member of my committee and was kind enough to make me a co-author on one of my first publications.

Tom Sargent and Chris Sims made seminal contributions to the fields of macroeconomics and time series econometrics. Starting in the 1970's, Sargent and Sims made series of remarkable contributions by bringing to bear important insights from economic dynamics to give meaningful interpretations of the time series data. These insights come only with rigorous economic modeling and careful empirical analysis. Sargent and Sims approached this task in different but complementary ways.

An important challenge in time series econometrics is how to quantify the impact of alternative sources of fluctuations in the economic data. Sims developed and refined statistical methods for this purpose, carefully illuminating the challenges in using multivariate time series data to make causal statements. He also developed and applied methods that measure the contributions from alternative sources of fluctuations and the uncertainty associated with those measurements. In so doing, he and other researchers using his methods developed a different perspective on the impact of monetary policy on economic activity. He challenged the monetarist view of policy by documenting how monetary aggregates often respond endogenously to other sources of macroeconomic fluctuations. His impact on applied research in macroeconomic time series is pervasive, extending to policy research from governmental agencies. Methods that he initiated continue to be refined by himself and many other researchers that he has influenced.

Sargent is an innovator in developing and using state-of-art dynamic economic models to deduce formally the implied restrictions on the economic time series and examine or test those restrictions using data on economic time series. His resulting empirical analyses explored a wide variety of macroeconomic questions including unemployment and inflation. He complemented his empirical focus with a willingness to explore a variety of current and historical evidence through the lens of alternative economic models, always with the purpose of understanding the ramifications for economic policy. Along with other eminent scholars such as Lucas, Kydland, Prescott and Wallace, he initiated research showing prescriptions for how macroeconomic policy should be altered when economic actors are forward-looking and rational. Based on this research, issues about credibility and commitment on the part of policy makers became central to the analysis of policy. Sargent innovated by exploring the implications of these ideas in empirical investigations, for example, in his studies of European hyperinflations and fiscal policies used historically by European countries to finance wars. Sargent, like Sims, challenged so-called monetarist views by showing why considerations of fiscal policy and its interactions with monetary policy are crucial to understanding the determination of prices and inflation.