

**Statement of Peter Diamond**  
**Nominee to be a Member of the Board of Governors of the Federal Reserve System**  
**Before the Committee on Banking, Housing and Urban Affairs**  
**United States Senate**  
**March 8, 2011**

Chairman Johnson, Senator Shelby, and Members of the Committee, I am honored to have been nominated by President Obama to be a member of the Board of Governors of the Federal Reserve System and grateful to this Committee for having me here today.

If confirmed, I will work to the best of my abilities to fulfill the responsibilities of this office. Those responsibilities have always been significant. The experience of the recent financial crisis and the ensuing financial reform legislation have underlined the multiple responsibilities of the Fed in working to foster maximum employment and price stability. The Fed has much work ahead in order to implement and fulfill the tasks laid out by the financial reform legislation. I would be honored and pleased to be part of the process of responding to this challenge.

I studied both mathematics and economics as an undergraduate at Yale University. I received my Ph. D. in economics from the Massachusetts Institute of Technology (MIT) in June 1963. Since then I have been a faculty member, first at the University of California at Berkeley, and, since 1966, at MIT. Throughout this period I have taught and done research in economics. My primary focus in both graduate teaching and research has been economic theory, particularly macroeconomics, search theory, and public finance. Within public finance, my primary focus has been on taxes, pensions, and social insurance, particularly Social Security. I have done both theoretical analyses and

policy analyses. At the undergraduate level I have taught microeconomics, macroeconomics, public finance, money and banking, and law and economics. Being a member of two economics departments with great collegial interactions, I have gained wide knowledge in a variety of economics topics, as well as detailed knowledge in my areas of expertise.

A central theme in my research career has been how the economy deals with risks, both risks at the individual level and risks that affect the entire economy. I have thought extensively and written about the risks in the economy, and how markets and government can combine to make the economy function better. In particular, the research that led to my being a co-recipient of the Nobel Prize in Economic Sciences<sup>1</sup> has addressed how the costs and delays in learning about market opportunities affect the workings of the economy. As noted by the prize committee, the basic research on this topic has been used as a starting place for applied research in a wide variety of areas – not only the housing and labor markets where sizable delays are clearly visible, but also in monetary theory and analysis of the capital market. Indeed, the varying speeds between the occurrence of surprises to financial firms and their abilities to respond is a central element in the development of financial crises, making search theory an important part of understanding how to avoid and limit future shocks to the financial system.

In sum, I believe my background would prove very helpful at the Federal Reserve, particularly as a part of the process of addressing our heightened awareness of the dangers of systemic risks. If confirmed, I would welcome the opportunity to help address

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<sup>1</sup> The full name is the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel

the important issues that have been raised by the financial crisis, as well as the longstanding issues and concerns in monetary policy and bank regulation that the Federal Reserve faces.

Thank you again for holding today's hearing; I would be pleased to answer your questions.