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THE ROYAL SWEDISH ACADEMY OF SCIENCES

The Royal Swedish Academy of Sciences has decided to award the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2022 "for research on banks and financial crises" to **Ben S. Bernanke, Douglas W. Diamond** and **Philip H. Dybvig**.

# The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2022

# How banks can help or hinder the economy

The Great Depression of the 1930s paralysed the world's economies for many years and had vast societal consequences. We have managed subsequent financial crises better, thanks to research insights from this year's laureates in the Economic Sciences: Ben Bernanke, Douglas Diamond and Philip Dybvig.

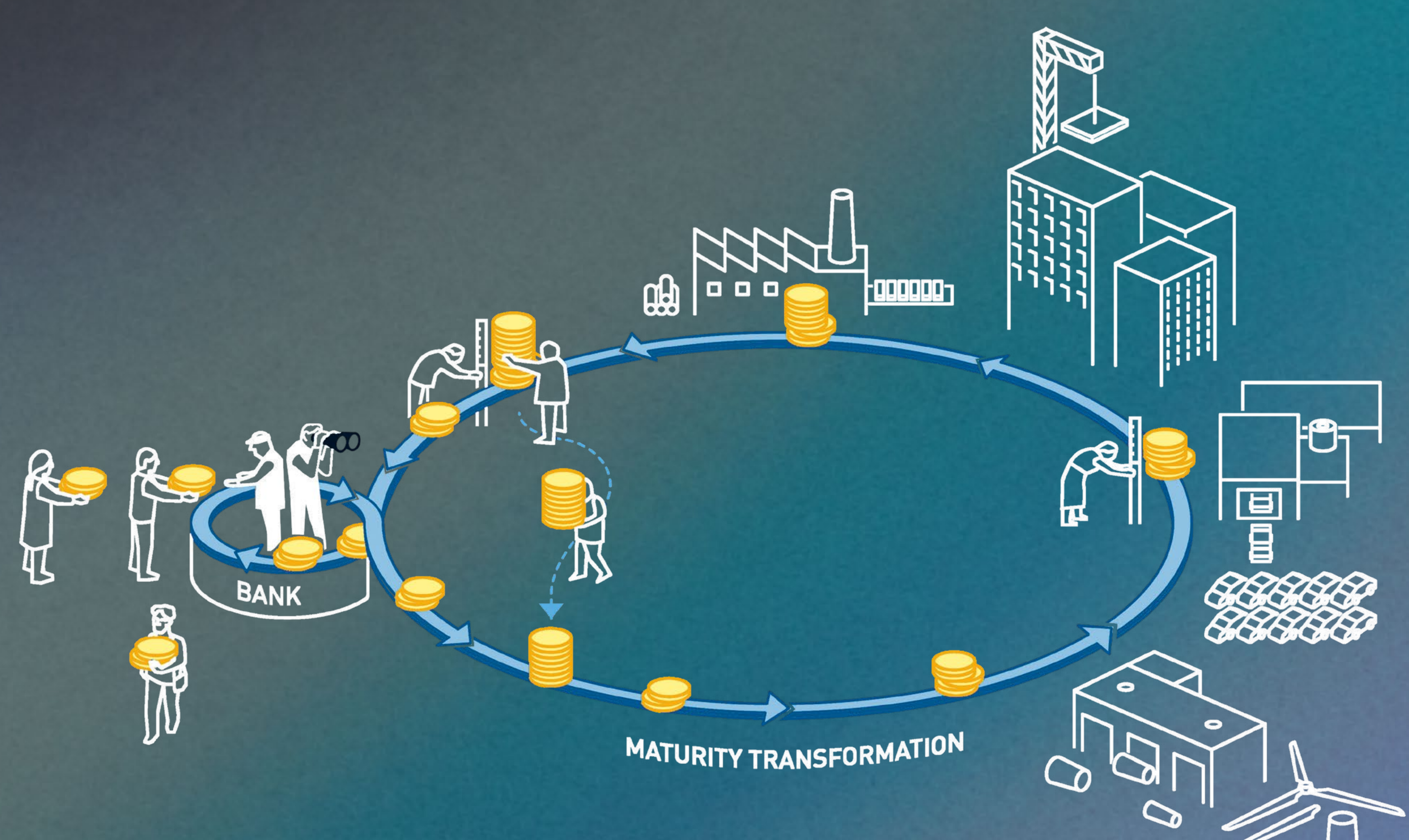
When we save money, we usually want to be able to access it quickly if we have unexpected outlays. On the other hand, when we borrow money, we like to be able to pay it back over a long period of time. Douglas Diamond and Philip Dybvig demonstrated the necessary theoretical assumptions that make an ordinary bank the best possible solution to this problem.

The bank gives all savers immediate access to their money, despite much of their savings being loaned to long-term investors. Savers being able to withdraw money when they want, despite their deposits being invested in long-term projects, is called *maturity transformation*. This can lead to *good equilibrium*, where each saver is confident they can withdraw their money at any time, while only those who actually need their money do so.

Unfortunately, ordinary banks also create conditions conducive to *bad equilibrium*, when savers no longer trust that their money is safe in the bank. Then there is a risk that everyone starts to withdraw their savings at the same time – a bank run. This is why government regulation is necessary to increase the stability of the banking system.


**Bank runs**

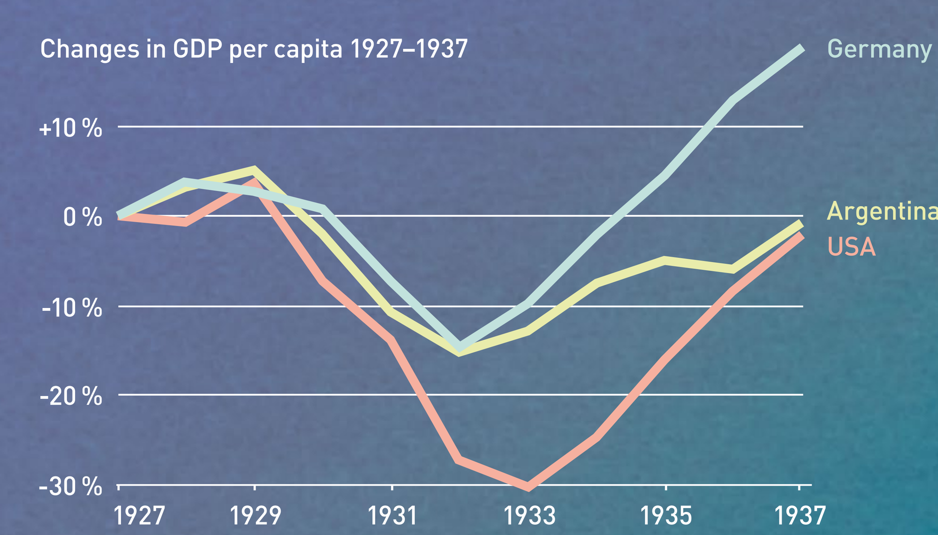
If many savers stop trusting their bank, and all rush to withdraw their money at the same time, there is a risk that the bank will collapse. These events can be prevented by the government providing *deposit insurance* and acting as a lender of last resort to banks in crisis.




**Global crisis**

Ben Bernanke analysed data from the global Great Depression of the 1930s. He was able to show how the banking system's collapse explained why the economic downturn was so deep and prolonged. A fairly normal recession turned into a banking crisis due to bank runs. This made it hard to get bank loans, making it difficult for businesses to finance their investments. This also led to huge financial problems for farmers and ordinary families. The result was the worst economic crisis in modern history.

Changes in GDP per capita 1927–1937




Source: Maddison Project Database 2020 (Bolt and van Zanden 2020)

**Ben S. Bernanke**
Born 1953 in Augusta, GA, USA. Distinguished Senior Fellow, Economic Studies, The Brookings Institution, Washington DC, USA.

**Douglas W. Diamond**
Born 1953 in Chicago, IL, USA. Merton H. Miller Distinguished Service Professor of Finance, University of Chicago, Booth School of Business, IL, USA.

**Philip H. Dybvig**
Born 1955 in Gainesville, FL, USA. Boatmen's Bancshares Professor of Banking and Finance, Washington University in St. Louis, Olin Business School, MO, USA.

Photo: Portrait of Ben S. Bernanke: Paul Morigi/Brookings; Portrait of Douglas W. Diamond: Joe Przybylski/Chicago Booth School of Business – Ginger Marketing; Portrait of Philip H. Dybvig: Whitney Curtis/WUSTL.

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More information about the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2022 is available at *www.kva.se/prizeeconomicsciences2022* and *www.nobelprize.org*, with video and detailed information about the prize and the laureates.

**Editors:** Tommy Andersson, Tore Ellingsen, John Hassler and Per Strömberg, Committee for the Prize in Economic Sciences in Memory of Alfred Nobel, Royal Swedish Academy of Sciences; Anna Davour, science writer; Clare Barnes, translator and Marianne Nordenlöw, editor, Royal Swedish Academy of Sciences. **Graphic design:** IVY Agency **Illustrations:** Johan Jarnestad/Infographics.se **Print:** Åtta45

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