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UMNews



Building a strong financial body

NARAYANA KOCHERLAKOTA IS READY TO STRENGTHEN THE FEDERAL RESERVE BANK OF MINNEAPOLIS

For decades the body of economic, monetary, and fiscal policy produced by the Federal Reserve Bank of Minneapolis has been built upon and strengthened by University of Minnesota research. And Narayana Kocherlakota—the U of M economics professor who on Oct. 8 becomes head of the bank—belongs to this tradition.



University of Minnesota economics professor Narayana Kocherlakota.

Theory for the real world

The current interplay between University of Minnesota research and the real-world policy produced by the Federal Reserve Bank of Minneapolis traces its roots to 1970, when a special studies group of U professors working to produce a theoretical model for the Fed to predict economic behavior inadvertently triggered a surge of research into "rational expectations" theory. Ideas from this research found their way into Federal Reserve policy, and the theoretical partnership took off.

Today, University researchers collaborate with Federal Reserve economists on the most varied questions of macroeconomic theory and monetary and fiscal policy. Over half of the U's economics professors have worked with the Fed's research department, and at any given moment several graduate students are also doing so.

Kocherlakota believes that progress in economics demands rigorous discipline and an often highly technical dialogue between data and theory. In brief—the relationship that exists between the University's Department of Economics and the Minnesota Fed. He puts it this way: "Few if any important questions in economics can be addressed with data or theory alone. Good answers require that the two be used together."

Road to the Fed

Kocherlakota, 45, received a doctorate in economics from the University of Chicago in 1987 on the topic of pricing financial assets. After teaching at the University of Iowa and at Northwestern University, in 1998 he joined the economics faculty at the University of Minnesota.

He left for Stanford in 2002 but returned to Minnesota in 2005, becoming chair of the economics department and leading a recruiting effort that increased the number of professors and enhanced department's national standing. He stepped down as chair in 2008 to devote time to research on how developed societies can best design their tax systems.

Challenges ahead

Kocherlakota now prepares for new challenges. As the last two years have shown—state and national economies are more than bodies of policy. They are living bodies. Kocherlakota will lead one of the dozen federal district banks that set monetary policy for the nation. "For an economist who has spent his career working on issues related to macroeconomics, monetary policy, and finance," he says, "there can hardly be a better job than president of a Federal Reserve Bank."

"I am excited about this new opportunity for many reasons, and the special bond between the Federal Reserve Bank of Minneapolis and the University of Minnesota is certainly one of them," Kocherlakota says. "I plan to keep the partnership between these two great institutions strong and vital."

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