



Other Press Releases

Nobel Laureate Professor Sir James A. Mirrlees Lectured at Lingnan University

(15 February 2008)

Lingnan University ("Lingnan" or "the University") was honoured to welcome today (15 February) on campus the 1996 Nobel Laureate in Economic Sciences Prof Sir James A. Mirrlees, who delivered a Distinguished Lecture on the topic of "Moral Hazard and Financial Crises". About two hundred guests attended the lecture, including Lingnan council members, staff, students and senior guests from government and from other academic institutions.

In this new economic era, it is suggested that the current financial crisis is caused by markets operating in a way that does not deal properly with moral hazard, that is, behaviour that cannot be controlled by contract. Prof Mirrlees' fundamental contributions to economic science back in the 1960s and 70s opened the way to the analysis of asymmetric information in economics, which focuses on the existence, use and effects of information that one party in a deal can keep private from the other, which only gets imperfect signals about it. These developments found major applications in fields as diverse as tax policy, the economics of insurance and behaviour by public utilities.

In the lecture, Prof Mirrlees applied this powerful line of analysis to share with the audience his insights on what should be done to provide insurance of default risk, and what kind of government intervention and regulations are needed to make it happen.

Lingnan organized this Distinguished Lecture Series in celebration of its 120-year founding anniversary as a leading university in the Mainland and its 40-year re-establishment in Hong Kong. One lecture under each academic programme at Lingnan – its broad "faculties": Business, Humanities and Social Sciences – will be organized in 2008. Today's lecture, representing the Social Sciences, is the first lecture in this Distinguished Lecture Series.



Prof Mirrlees has a close connection with Lingnan University, through his old friend and former M.Phil. and Ph.D. supervisee Prof Jesús Seade, the Head of Department of Economics at Lingnan, who was privileged to work with Prof Mirrlees in the heyday of development of those theories, which

he now teaches at Lingnan.

The lecture relates to Lingnan also in a broader way: through its topic, on financial markets, which is a core research interest for most members of its economics department—which last year received an extremely high rating in the UGC's Research Assessment Exercise (RAE). This strength of the department has also been recognized by the University, which has made the area a priority for further development of its strengths, and by the Research Grants Council (RGC) which, in its fifth round of Public Policy Research Funding Scheme at the close of 2007, awarded a \$1.4 million research grant to Lingnan — which was the largest amount of funding for one single project among the local institutions funded by the University Grants Committee (UGC).



The project in question, on "Hong Kong as an International Financial Centre for China and for the World", is led by Prof Seade as principal investigator, with four other members of staff in the team. This study will run from this spring for two years, and will include: (1) a systematic examination of Hong Kong's relative position, strengths and weaknesses across financial industry; (2) a study of demand behaviour by Chinese users of financial services in order to shed light on the locational structure of the Mainland's demand for international financial services and the major determinants for those choices; and (3) a firm-level comparative examination of how regulatory and other factors determine market conduct, decisions and performance in the banking industry—and what changes would improve performance.

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