

Q&A...

with Leena Rudanko, an economic advisor and economist here at the Philadelphia Fed.



Leena Rudanko

Economic Advisor and Economist Leena Rudanko grew up in a suburb of Helsinki, Finland, the daughter of a doctor and an engineer. She studied engineering and math in college but switched to economics in graduate school. At the University of Chicago, she was steeped in cutting-edge, model-driven macroeconomics, an interest she brought with her to the Philadelphia Fed's Research Department 11 years ago.

How did your parents' occupations affect your decision to eventually become an economist?

My family background felt very much oriented toward the natural sciences. It was clear to me that I should study math, physics, and chemistry in high school. So, their occupations influenced my career development, but ending up as an economist isn't from them. I thought I would become a doctor. But through a turn of events I took some university-level math classes that inspired me, so I decided to apply to engineering school instead. I gravitated to that school's math department and worked there as a teaching assistant for many years. At some point, of course, there's this question: Is there a job at the end of all of this after I graduate? That's where economics came in. In a central bank, for example, economists use mathematical modeling, so having that technical background can be helpful. I ended up doing a minor in economics.

Why did you come to the United States for graduate school?

I wanted to learn more about the economics side of things. I felt I didn't have a good understanding yet. In Finland, as a smaller country, there were fewer advanced classes offered and fewer experts in the field I was looking to focus on, macroeconomics. I also had a professor who pushed students to visit other countries, including the United States, to gain a broader perspective.

What brought you to the Philadelphia Fed?

I was looking to move. I liked that the Philadelphia area is home to many economists in different institutions. I thought that would make for a more pleasant professional experience. And I liked the idea of being in a city environment, not someplace where there's nothing except your job.

What led you to become interested in wage rigidity?

When I was in graduate school, macroeconomists were interested in dynamic contracts. When you think about contracting problems, it's not just the static analysis that microeconomic theorists think about. It's bringing the analysis to a

more dynamic world. That work intrigued me. I also took a class on labor market dynamics, focusing on search models where firms create vacancies and workers search for jobs. I got to thinking about merging the two ideas, dynamic contracting on the one hand and labor market search on the other. Maybe by combining them, we can better understand the puzzle of wage rigidity. If you allow individuals in the model to optimally choose how they behave, can you get wage rigidity?

So, if the data tells us there is wage rigidity, a model with contracts or a firm-level pay policy could explain why there is wage rigidity.

Exactly.

Do you prefer empirical or theoretical research?

I've focused on theory, but I try to stay informed about what empirical research finds. I think that few people can be good at a lot of different things, so I've tried to do one thing well. Of course, these days a lot of people like to think about data, so I guess I'm in the minority.

Why haven't more macroeconomists looked at the subject of your *Economic Insights* article, namely, firm-level pay policies and the labor market?

I think that sometimes schools of thought influence how you think about things. It may be that some of the more institutional aspects of firm behavior seem more behavioral and a bit outside of economics—like, if you're paid less than your colleague, you're less inclined to work as hard. Finding a satisfying way to capture those kinds of effects may be challenging. Limitations of the data that would otherwise speak to these questions undoubtedly play a role too, as there should be interplay between theory and evidence. I've also gotten the impression that academics sometimes emphasize different things because their own job is so different from the jobs most people do. I had a professor in grad school who would refer to that as “extrapolating from the navel.” 