What Bangladesh can learn from the 2026 economics Nobel-winning research

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Views expressed in this article are the author's own.

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Robert E. Hall and Michael Woodford won the 2026 Nobel Prize in Economic Sciences for their work on "the microeconomic foundations of macroeconomic stabilisation." Their work helps explain how household and business decisions shape the wider economy, and how public policy can respond when growth, employment, and prices move in harmful directions. Robert E. Hall and Michael Woodford's research transformed how economists understand these policies. They showed that a broad, top-down view of the economy alone is insufficient. Household and business decisions together shape the overall economy. Models based on this idea are called New Keynesian models.

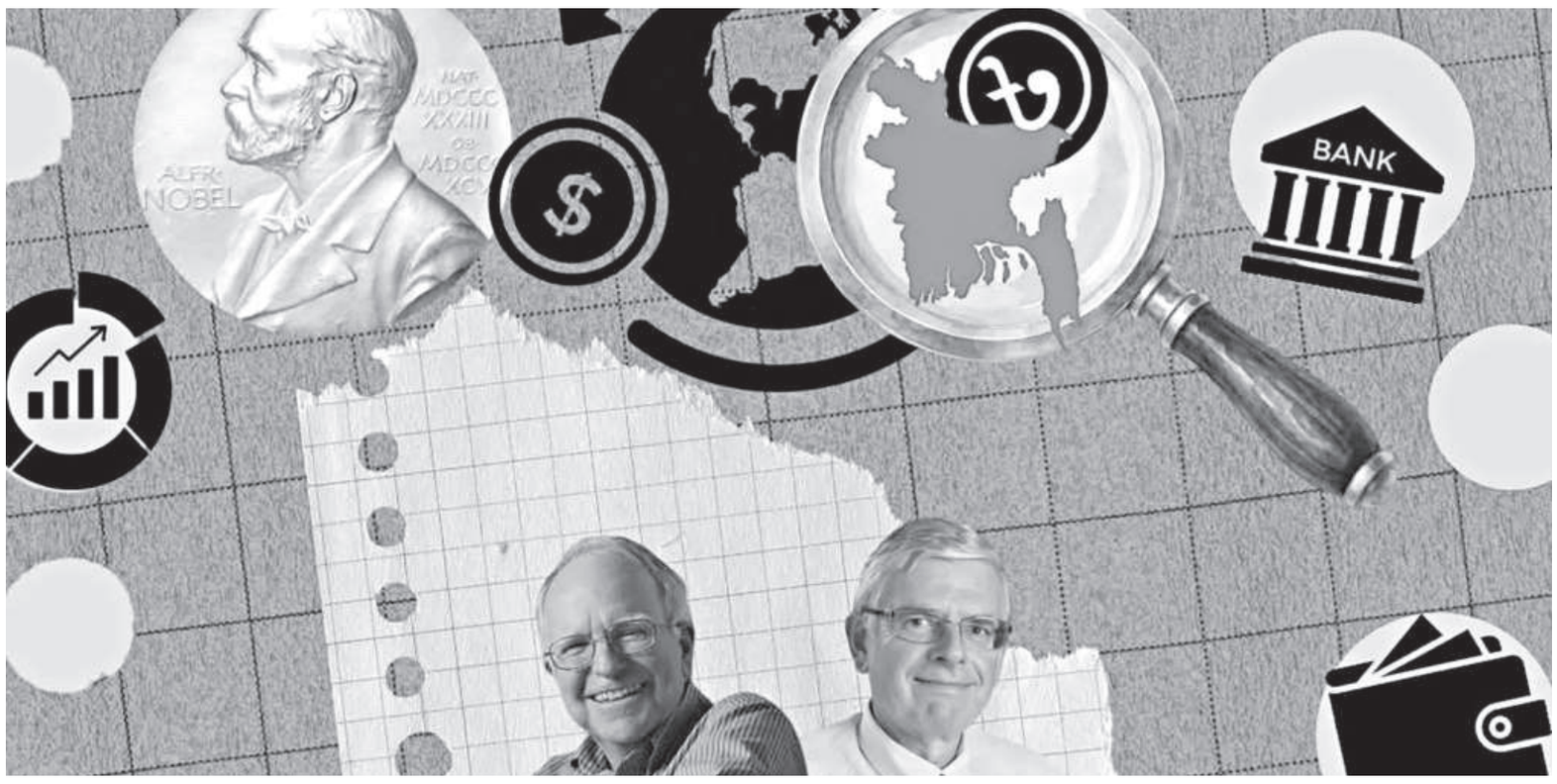
Influential economist John Maynard Keynes argued that insufficient demand for goods and services can increase unemployment and weaken economic growth. When people and businesses spend too little, shops and factories sell fewer goods and services. They may then produce less and hire fewer workers, so unemployment can rise and the economy can slow down. Excessive demand, by contrast, can overheat the economy and push up inflation. Stabilisation policy therefore aims to boost demand when it is too weak and curb it when it becomes excessive.

Older economic models assumed the economy would respond in familiar ways. They expected prices to rise when employment and production were strong, and to fall when the economy weakened. But the oil crises of the 1970s broke this pattern. Oil prices surged, raising the cost of many goods even as businesses cut production and jobs. As a result, inflation and unemployment rose together. Policies built on old assumptions struggled to address this situation. Robert E. Hall showed how expectations influence household spending. He showed that household spending depends not only on current income but also on expectations about future income. If families feel hopeful about the future, they may spend more. Based on this idea, Hall argued that household spending should remain fairly stable unless people receive new information about the future. His theory implies that changes in household spending cannot be accurately predicted. Later research supported his idea.

Michael Woodford's model shows how central banks can influence economic activity. In 2003, Woodford introduced a macroeconomic model of how the economy works, based on decisions by households and businesses. Policymakers can use it to explore questions such as: what might happen to production and inflation if interest rates fall? How much should rates rise to control inflation? The model incorporates Hall's findings on household spending and shows how changes in interest rates can shape families' saving and spending decisions. Woodford's work explains how a central bank can influence economic activity by adjusting its policy interest rate or the amount of money in circulation.

Businesses cannot always adjust prices immediately when demand or costs change. Updating price lists, contracts, or informing customers takes time and money, so prices may stay fixed, a phenomenon economists call price stickiness. If customers buy less, a business may initially keep prices unchanged and instead reduce production or staff hours. Continued declines can reduce both output and employment. Businesses set prices by considering future costs and competitors' prices. Their views about the central bank's future policies can also affect inflation. This is why clear and credible communication from the central bank matters. Woodford used the idea of the output gap. If actual production is above the level the economy can sustain, demand may be too strong, and inflation may rise. If actual production is below that level, the economy may be weak and inflationary pressure may ease. One aim of stabilisation policy is to reduce this gap.

Supply shocks force policymakers to make difficult choices. A sudden increase in energy prices or a disruption to international supply chains can limit an economy's productive capacity. Production may decline as inflation and unemployment rise at the same time. In these circumstances, focusing solely on boosting demand is not enough. Policymakers must also account for inflationary pressure. The most effective response depends on the cause of the shock and the state of the economy.



VISUAL: **ALIZA RAHMAN**

This research by Hall and Woodford provides policymakers with better tools to stabilise the economy. New Keynesian models, building on the work of Hall and Woodford, are now used by central banks and finance ministries in many countries. Policymakers can tailor the models to each country's economic conditions, and further research is needed to improve them. The Nobel laureates' research can help explain Bangladesh's current economic challenges and inform how to respond. Their work helps policymakers understand how people respond to changes in income, prices and interest rates, and how firms adjust prices, production, and investment. This framework helps analyse Bangladesh's current difficulties, but it is not a ready-made policy formula.

Bangladesh faces high inflation alongside weak growth and investment. Inflation rose to 8.34 percent in September 2026, up from 8.26 percent in August 2026. Subdued economic activity, supply and cost pressures, and slow growth in private-sector credit are key challenges. In August, private-sector credit grew by 4.75 percent. Businesses are delaying investment amid high financing costs, energy shortages, infrastructure bottlenecks, and uncertainty about demand. These points indicate that policymakers must take appropriate measures to reduce inflation without further weakening production, investment, and employment.

The Nobel laureates' approach helps show how these pressures affect different parts of the economy. As prices rise, households may spend less, use their savings, or cut essential expenses. Low-income families with limited access to credit have less room to adapt. Businesses, meanwhile, consider interest rates alongside energy costs, access to imported inputs, infrastructure, demand, and policy uncertainty when deciding whether to invest, produce, or hire. Higher interest rates can curb borrowing and demand, but cannot, on their own, fix energy shortages, port delays, or other supply problems.

When inflation is driven mainly by demand outpacing the economy's capacity to supply, tighter monetary policy can help curb spending. But when a supply shock pushes up costs while production and employment remain weak, raising rates further may reduce investment and jobs without addressing the source of inflation. A lower rate is not automatically the answer, either. If households and businesses expect prices to keep rising, inflation may persist. Bangladesh Bank must, therefore, continue to weigh both risks and explain how it will respond to new evidence.

The Nobel laureates' framework also helps understand the need for consistency across public policy. Bangladesh Bank's monetary tools and the government's decisions on taxes, spending, and borrowing serve different purposes, but affect the same economy. When government borrowing boosts demand or competes with businesses for bank funds, it can weaken the effects of monetary restraint.

Bangladeshi policymakers can take three practical lessons from this. First, track inflation by its sources and the groups it affects, drawing on data about household spending, wages, business costs, import prices, and expectations. Second, set interest rates with inflation risks in mind, alongside growth, employment, and credit conditions. Third, strengthen supply and productivity with reliable energy, efficient ports, better transport, and fewer administrative barriers. Targeted support can help protect low-income families as these changes take effect.

The theory applies to Bangladesh because households and businesses everywhere make decisions that shape economic outcomes. However, the country's high informality, limited household savings, reliance on imports, supply constraints, and banking-sector weaknesses call for locally grounded analysis. The key lesson is to use the Nobel laureates' framework to understand how policies influence real decisions, while pairing credible monetary policy with sound fiscal choices and practical steps to address high costs and weak investment.

'Some form of change will have to happen following India protests'

***Jahnavi Sen**, managing editor of The Wire, speaks to **Md. Shariful Hoque** of **The Daily Star** about the ongoing protests in India demanding the resignation of its chief election commissioner and raising concerns over voter deletions and potential disenfranchisement linked to the Special Intensive Revision (SIR) of electoral rolls.*

The Cockroach Janta Party (CJP) movement began as a meme and social campaign, but gradually became a major force in Indian political discourse. Do you think it has become more of a political movement now amid the ongoing protests?

CJP started as an online movement, but during June and July, it turned into a street protest. It was barely a few weeks old then. We saw how, in Delhi, it grew into a large sit-in protest, with protesters attempting to march to parliament before being stopped by the police. Quite soon, it became clear that the movement had captured people's imagination and was not going to remain confined to the internet and social media.

The current movement is a little different. CJP is one player in it, and its leaders have come out to say that the right to vote is essential and that they want to put all their strength behind the cause. But different groups also seem to have been involved from the start, organising different kinds of protests and applying different forms of pressure.

For CJP, it still remains a youth pressure group. It still does a lot of online campaigning while holding physical protests. But I don't think the protest this time is as centred around them.

The protests have escalated, especially since October 10, with demands for the chief election commissioner's resignation. Given that BJP has been in power for more than 12 years, how significant a political challenge does this movement pose to the government?

It has turned into an extremely significant challenge. The protests actually started a little earlier, around October 2, when civil society activists tried to gather in Delhi. The police immediately adopted a playbook of preventing any gatherings



Jahnavi Sen

with detentions and roadblocks. Metro stations were closed down and a lot of traffic was diverted.

BJP leaders have been saying that the protests are an attempt to cause anarchy. They have tried to blame it on the leader of the opposition and the main opposition parties. But I don't think anyone watching the footage of protests can say that this is an opposition-driven political agenda, because people from different walks of life have come together at these demonstrations.

They have all been affected by the issue at hand, which is the way the Election Commission has been functioning over the last few years. This has become particularly stark since last year, with the Special Intensive Revision (SIR) of voter rolls and the inordinate pressure placed on citizens to prove their identities. I don't think the government will be able to ignore the fact that such a basic right of every citizen is, in some way, being seen as under attack.

Congress leaders Rahul Gandhi and Priyanka Gandhi, along with internet personalities and celebrities, have joined the movement. Is the opposition amplifying a genuine movement or attempting to turn public anger into a broader political campaign of its own?

For this particular movement, it has been easy for Rahul Gandhi to come out and own it, because the voter-roll issue is something that he has been raising for much longer than the past few weeks. He has been holding press conferences and questioning the way voters are being added to and deleted from electoral rolls in different states just before elections. But while opposition parties are playing a big role, many of the street protests are being led by youth groups.

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Does India's response to the protests suggest that the government is becoming increasingly intolerant of dissent?

We have been witnessing intolerance towards dissent for several years now. We have seen cases brought against rights activists and people who have participated in protests. We also saw the big farmers' movement in 2021 and the way the roads to Delhi were blocked.

One of the first glimpses into how far protesters managed to bring this into the heart of the national capital came in July, when pellet guns were fired at student protesters on July 20 as they were trying to march to parliament. Something like that had never happened there before. There was a lot of outrage, and we still have not received a clear answer as to why such force was considered necessary against a peaceful protest.

The Union government has been trying very hard to prevent a similar situation this time, using the Delhi Police and paramilitary forces. However, the police are detaining even small groups of people. They may be allowed to protest for 15 or 20 minutes, raise some slogans and gather, and then they are put on police buses, driven to the outskirts of the city, and let off. There have also been reports of phones being taken and attempts to delete footage. Many journalists and lawyers have been detained.

What has led to the erosion of trust in the EC? What evidence supports allegations that CEC Gyanesh Kumar has favoured BJP, and how should we distinguish legitimate concerns about institutional neutrality from allegations that have yet to be established?

The issues with the Election Commission predate Gyanesh Kumar's appointment. During the 2019 general elections, one of the three election commissioners, Ashok Lavasa, suddenly resigned. It was later revealed that he had wanted notices to be issued to Prime Minister Narendra Modi and other top BJP leaders over speeches violating the model code of conduct. Likewise, we have seen different ways in which the commission has been used to favour BJP.

Creating a voter roll from scratch is an extremely complicated exercise. Anyone willing to do it seriously would give it adequate time and care. An interesting finding emerged from transparency activist Anjali Bhardwaj, who asked the Election Commission for the documents or notes on which the decision to conduct the SIR was based. The response was that the commission had no record of such a decision being taken. The question, then, is who decided that this exercise should take place in certain states where elections were approaching and that it should be conducted in such a rushed manner. West Bengal is one of the states where the extent to which this was used to keep people off the voter list was particularly stark. We saw how Muslim-majority areas experienced much larger numbers of deletions.

BJP has portrayed CJP and the youth-led protests as part of an anti-Modi agenda, while some have questioned whether the movement is influenced by foreign interests. How effective has this attempt to delegitimise the movement been?

BJP keeps insisting that the Election Commission of India is an autonomous and independent body. But all the defence of what has happened at the Election Commission has come from BJP leaders. None of the election commissioners has held a press conference. There has been just one press note, which did not really refute any of the allegations.

There was a report that two of the three election commissioners—not Gyanesh Kumar, but the other two—had dissented against EC decisions at least 14 times in 10 months. That is an extremely serious matter, something that the EC must answer for. There has certainly been an attempt to change the narrative, but it does not appear to be sticking.

South Asia has witnessed repeated confrontations between citizens and political establishments, from Sri Lanka and Bangladesh to Nepal and now India. What needs to happen for public anger to translate into lasting democratic reform?

South Asia has a very large youth population. There are many reasons why these street protests have captured people's imagination, whether they concern education, public exams or recruitment systems. Quality employment, in particular, has become a major issue. The dream that big investments would mean better jobs and better lives for everyone is slowly being shattered.

As for what it takes for democratic dissent to succeed, a few months ago, the Union education minister had to resign following large-scale protests led by CJP. That was the first resignation of a minister in the Modi years resulting from public protest. The scale of the current protests means that some form of change will have to take place for people to feel that there has been a response. For that to become a lasting change, there needs to be greater investment in education, infrastructure, and healthcare, along with a concerted effort to create the futures people want.

This is an abridged version of an interview conducted by The Daily Star on October 13, 2026. To watch the full interview, visit @TheDailyStarNews.