

Letter of Recommendation for Melanie Lührmann

It is a pleasure to write a letter of recommendation for Melanie Lührmann. She has worked for me and the Mannheim Research Institute for the Economics of Aging (MEA) during a long time, starting as a student research assistant in summer 1995 until she finished her Ph.D. in spring 2006. During this time, she has done a lot of very different work, starting from the usual RA stuff such as assembling data to joint papers and co-editing a book.

The trait that I appreciate the most is Melanie's fantasy. She is very lively and creative, has an independent mind without being stubborn or dogmatic. She is a hard worker, always engaged, and very sincere.

Melanie's command of economics is broad. She is not the kind of researcher who narrows quickly to one subject or the other. Rather, her main strength is to draw connections. When she was a student, this was reflected in her grades: She received A's in Theory as well as in Applied Econometrics and in Public Finance. This is not a Mannheim feature: she has not only been a top 3% student here, but also did very well in Berkeley, where she spent a year as an exchange student at the last year Master/first year Ph.D. level. Although she has done a lot of theory and econometrics, her heart tends towards applied economics, and I guess, she will end up in some kind of public economics.

Melanie's first major contribution was her heavy involvement in a book project of mine – compiling a business-school inspired set of „Case Studies in Economics“ – that uses 15 historical cases in Germany and elsewhere to make introductory economics more colorful. The book is more than just case narratives as it also includes the theory behind the cases, covering both core macro and micro theories. Melanie has written first drafts of four of the 15 cases, was fully responsible for one case (on clean-air policy in Southern California), and has copy-edited the entire book. She was extremely helpful, thoughtful, had lots of ideas both in terms of material and structure. I thought that it was most unusual to have a relatively young student who could do this work. Most Ph.D. students would not have such a broad command of economics and would not be able to draw the connections between different fields – and be right.

Melanie's dissertation is a very interesting piece of work in the macroeconomics of population aging – actually four pieces which are separate papers. The first paper looks on capital flows induced by differences in the demographic development over the next three decades. The paper combines ideas from Higgins and the well quoted Feldstein and Horioka paper. Her contribution is to include expectations about future demographic change into a model of forward looking international financial markets. She constructed a panel with time series of some 120 countries and showed that capital flows will be larger than predicted e.g. by Higgins when expectations of future demographic change are included in a cross-national panel regression. The paper is a very professional piece of work, with very careful data construction and econometric analysis. It has been well received by the research community and has been quoted frequently.

The other papers are geared more towards consumption and household decisions on the micro level. In the second paper of her dissertation, she works through an accounting model of consumption changes induced by population aging. Since consumption patterns vary by age, an older population will change aggregate consumption through these composition effects. Moreover, this consumption change implies sectoral shifts in labor demand. She works out these implications in a simulation model calibrated to German data. Her contribution is a careful separation of age-, cohort- and income effects based on the German income and expenditure survey. I very much like her careful approach in assembling the data and her many and painstaking sensitivity analyses.

The third paper of her dissertation concerns the so-called “consumption retirement puzzle” – the lack of a smooth consumption path during the transition from work to retirement that seems to contradict the life cycle hypothesis. She first goes through the standard explanations known from the literature, again applying German consumption expenditure data. Her main contribution, however, was very original at that time: she postulated that household production substitutes for purchased consumption after retirement. Using a combination of expenditure and time-use data, she was able to convincingly support that hypothesis.

The final paper of the dissertation picks up this idea and uses it to find yet another argument against the so-called “lump of labor fallacy”. She is not beating upon a dead horse here: the belief in a fixed amount of labor is still a strong force in shaping retirement and labor market policies in Europe and certainly her home country. The paper is joint with a Mannheim theoretician. Her contribution is the empirical analysis. She shows that more employment in the high qualification sector of the labor market does not crowd out other employment. In fact, it creates more lower qualified jobs as well because part of home production of the higher qualified is substituted by market purchases of goods and services.

This paper and her other papers show what her strengths are: a common sense idea, yet under-researched in the literature; a clear cut theoretical foundation for that common sense; and a professional data analysis using newly assembled or re-combined data sets and state-of-the-art econometric models to show relevance and significance. I particularly like her common sense, a trait not always shared among economists who run for publications; and I admire her diligent and patient data handling. Her work gains a lot of credibility through this sincerity.

Melanie has taught several classes in Mannheim; her sincerity and care has made her a popular teacher. Her contributions to the abovementioned case studies have shown another aspect of her didactic skills. I have no doubts that she will be a good teacher.

Let me summarize: Melanie is ambitious and hard working, adaptable and will have no problems integrating in a new academic environment. I *highly* recommend her for an Assistant Professorship or a Senior Researcher position in a top academic institution in Europe or the United States.

Mannheim, 17. November 2007



Prof. Axel Börsch-Supan, Ph.D.