

## Inhalt / Contents

### Abhandlungen / Original Papers

<i>Conrad, Klaus</i> , Engines Powered by Renewable Energy, the Network of Filling Stations and Compatibility Decisions. . . . .	362–381
<i>Henseler, Miriam, Joachim Plesch</i> , How Can Scholarship Institutions Foster the Return of Foreign Students? . . . . .	382–409
<i>Imkamp, Heiner</i> , Welchen Zusammenhang zwischen Preis und Qualität sollte der Wettbewerb auf Konsumgütermärkten herstellen? Which Price-Quality Relationship Should Competition Induce on Consumer Goods Markets? . . . . .	410–425
<i>Kallweit, Manuel</i> , Rentenreform und Rentenzugangsentscheidung – Eine numerische Gleichgewichtsanalyse Pension Reform and Endogenous Retirement – a Computable General Equilibrium Analysis . . . . .	426–449
<i>Schnitzlein, Daniel D.</i> , Struktur und Ausmaß der intergenerationalen Einkommensmobilität in Deutschland Structure and Extent of Intergenerational Income Mobility in Germany . .	450–466
<i>Schunk, Daniel</i> , What Determines Household Saving Behavior? . . . . .	467–491
<i>Wiemers, Jürgen, Kerstin Bruckmeier</i> , Forecasting Behavioural and Distributional Effects of the Bofinger-Walwei Model using Microsimulation . . . . .	492–511

### Buchbesprechungen / Book Reviews

<i>Borella, Sara</i> , Migrationspolitik in Deutschland und der Europäischen Union. Eine konstitutionenökonomische Analyse der Wanderung von Arbeitskräften. . . . .	512
<i>John, Klaus Dieter, Dirk T.G. Rübbelke (Hrsg.)</i> , Wachstumsschranken durch schwindende Rohstoffreserven. . . . .	514
<i>Kasten, Tanja</i> , Monetäre und nicht-monetäre Effekte von Erwerbsunterbrechungen . . . . .	516
<i>Neck, Reinhard, Jan-Egbert Sturm (eds.)</i> , Sustainability of Public Debt . . .	517

# Engines Powered by Renewable Energy, the Network of Filling Stations and Compatibility Decisions

By Klaus Conrad, Mannheim

JEL L11, L15, L62, Q42

Network effects, compatibility, environmental concern, price competition, lock-in effect, automobiles.

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## Summary

The paper addresses entry barriers for a new technology – hydrogen powered cars or cars with fuel cell engines – if the network of its filling stations is missing. We use Hotelling's model of product differentiation to characterize a situation where an incumbent firm produces the old technology, compatible with the existing network of filling stations, and an entrant, who cannot use this network. The oil companies myopically support the use of the original technology based on fossil fuel by following Hotelling's pricing rule. This encourages the entrant to invest in compatibility. The entrant with the new technology is a Stackelberg leader while the old-technology firm is the follower. In the first stage, the entrant invests in the network of filling stations and in the second stage both compete in prices, given the network situation. These two-step models are repeated until the network is compatible or the oil is exhausted. The main positive result is that the fossil fuel powered cars see their market share and profitability decline over time, while the hydrogen firm increasingly prospers. These trends are stronger the stronger are the consumers' environmental concerns. On the normative side, the privately optimal pace of investment is slower than the socially optimal pace of investment, suggesting policies that would foster the introduction of the hydrogen technology.

# How Can Scholarship Institutions Foster the Return of Foreign Students?

By Miriam Henseler, Bonn, and Joachim Plesch, Konstanz

JEL F22, C41, O19

Foreign students, return migration, integration, developing countries.

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## Summary

We investigate the return decision of students from developing and transition countries who studied in Germany and received support from a scholarship institution. Using a discrete time duration analysis and controlling for economic, political and institutional determinants, we find that individual factors, in particular age and time spent in the host country, have a crucial impact on the return decision. We propose selection criteria and proper contractual arrangements that are liable to induce students to return, thereby fostering the economic development in their home countries. Moreover, we analyze the impact of cultural differences between home and host country on the return decision. Especially graduates from Africa seem to consider cultural differences when deciding whether and when to return.

## **Welchen Zusammenhang zwischen Preis und Qualität sollte der Wettbewerb auf Konsumgütermärkten herstellen?**

**Empirische Befunde, normative Überlegungen, marktpolitische Schlussfolgerungen**

## **Which Price-Quality Relationship Should Competition Induce on Consumer Goods Markets ?**

**Von Heiner Imkamp, Stuttgart**

JEL D12, D52, L15

Price-quality relationship, market efficiency, market failure, workable competition.

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### **Summary**

Not only that consumers take it often for granted that product prices are good indicators of product quality, but also many experts in consumer economics expect a high positive price-quality relationship. However, for more than 50 years numerous studies in more than 10 countries all over the world have shown low price-quality correlation coefficients, mostly close to 0.2. These results have been interpreted twofold: (a) consumers cannot use prices as valid indicators of quality and (b) markets do not function well. In contrast to the second interpretation, this paper argues that, according to the economic theory of price formation, prices are not an indicator of quality, but an indicator of scarcity. This allows the conclusion that workable consumer goods markets, as seen from a welfare point of view, should be characterized by low or even negative correlations between price and objective quality rather than by strong positive coefficients. All the more it is the availability of valid information about product quality which is necessary to enable consumers to avoid inefficient product choices.

# **Rentenreform und Rentenzugangsentscheidung – Eine numerische Gleichgewichtsanalyse**

## **Pension Reform and Endogenous Retirement – a Computable General Equilibrium Analysis**

**Von Manuel Kallweit, Würzburg**

JEL H31, H55, J26

OLG-modell, endogenous retirement, minimum pension.

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### **Summary**

The paper presents a numerical general equilibrium model in which agents decide about their retirement age. In this context policy reforms like an increase of the normal retirement age, higher discounts for early retirement or the introduction of flat or minimum pensions are simulated. While future generations benefit from the first two reforms, they suffer from the latter. There are three central findings: First, higher discounts have a stronger effect on the retirement decision than an increase in normal retirement age. Second, the timing of retirement is significantly affected by an introduction of flat pensions. Third, models with an explicit retirement decision can lead to different policy implications compared to models in which retirement age is exogenous.

# **Struktur und Ausmaß der intergenerationalen Einkommensmobilität in Deutschland**

## **Structure and Extent of Intergenerational Income Mobility in Germany**

**Von Daniel D. Schnitzlein, Nürnberg**

JEL D31, J24, J62

Intergenerational mobility, distribution, Germany.

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### **Summary**

The paper examines the structure and the extent of intergenerational income mobility in Germany. Using data from the German Socio-economic Panel it is possible to look at both, father-son and father-daughter pairs. In the present case the intergenerational income elasticity is 0.26 for father-son pairs and 0.36 for father-daughter pairs. A more detailed analysis is carried out, applying a quantile regression approach. In a third step I estimate the transition matrices of sons. Although there is some persistence at both ends of the income distribution, the results show a high level of intergenerational mobility in Germany.

# What Determines Household Saving Behavior?

## An Examination of Saving Motives and Saving Decisions

By **Daniel Schunk, Zürich**

JEL D12, D91, E21

Private household saving, saving behaviour, saving motives, old-age provision, precautionary savings.

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### Summary

Saving decisions are complex, since there are many concurrent motives for saving a portion of one's income. However, while the existing literature covers all of these motives, most contributions select only one of them as a focus and relegate the others to the background by making simplifying assumptions about them. While the focus on only one saving motive is vital for many insights on aggregate saving behavior, this paper argues that further insights relevant to policy can be gained by relaxing this assumption. Using data from a random sample of German households and from federal official statistics, I explain how much people save under the explicit assumption that various different saving motives co-exist. The findings show that heterogeneity in saving behavior is systematically related to the importance that households attach to different co-existing saving motives. This suggests that policy reforms that change the importance of certain saving motives in the eyes of private households might influence their saving decisions.

# Forecasting Behavioural and Distributional Effects of the Bofinger-Walwei Model using Microsimulation

By Jürgen Wiemers and Kerstin Bruckmeier, Nuremberg

JEL H24, H31, I38

Labour supply, work incentives, microsimulation, in-work benefits.

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## Summary

Since Germany's social assistance reform ("Hartz-IV-Reform") in 2005 there has been a strong increase in the number of working poor and long-term unemployed. This development is often attributed to the remaining disincentives of the reformed social assistance to take up a low-paid full time job. Therefore, several proposals have been worked out to reduce these disincentives. In this paper we analyse an in-work benefit programme considered by the German government, which follows the proposal of Bofinger et al. (2006). We employ a microsimulation model for estimating labour supply as well as distributional and fiscal effects of this reform proposal. We provide "morning after effects", i.e. fiscal effects without considering behavioural adjustments, and long run effects, which take into account the labour supply response following the introduction of the reform. We predict the labour supply responses by estimating a discrete choice model for different household types and find a moderate increase in labour supply (103,000 full-time equivalents) as well as overall low negative participation effects. The distributional analysis reveals an overall increase in poverty rates caused by lower earnings disregards as well as substantial deadweight losses, since a large part of the in-work benefit accrues to households who do not belong to the working poor in the status quo.