

Micheli, Martin

**Working Paper**

## Does height affect labor supply? Implications of product variety and caloric needs

Ruhr Economic Papers, No. 566

**Provided in Cooperation with:**

RWI – Leibniz-Institut für Wirtschaftsforschung, Essen

*Suggested Citation:* Micheli, Martin (2015) : Does height affect labor supply? Implications of product variety and caloric needs, Ruhr Economic Papers, No. 566, ISBN 978-3-86788-652-9, Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI), Essen, <https://doi.org/10.4419/86788652>

This Version is available at:

<https://hdl.handle.net/10419/112768>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



# RUHR

ECONOMIC PAPERS

Martin Micheli

## Does Height Affect Labor Supply? Implications of Product Variety and Caloric Needs

# Imprint

## Ruhr Economic Papers

Published by

Ruhr-Universität Bochum (RUB), Department of Economics  
Universitätsstr. 150, 44801 Bochum, Germany

Technische Universität Dortmund, Department of Economic and Social Sciences  
Vogelpothsweg 87, 44227 Dortmund, Germany

Universität Duisburg-Essen, Department of Economics  
Universitätsstr. 12, 45117 Essen, Germany

Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI)  
Hohenzollernstr. 1-3, 45128 Essen, Germany

## Editors

Prof. Dr. Thomas K. Bauer  
RUB, Department of Economics, Empirical Economics  
Phone: +49 (0) 234/3 22 83 41, e-mail: [thomas.bauer@rub.de](mailto:thomas.bauer@rub.de)

Prof. Dr. Wolfgang Leininger  
Technische Universität Dortmund, Department of Economic and Social Sciences  
Economics – Microeconomics  
Phone: +49 (0) 231/7 55-3297, e-mail: [W.Leininger@wiso.uni-dortmund.de](mailto:W.Leininger@wiso.uni-dortmund.de)

Prof. Dr. Volker Clausen  
University of Duisburg-Essen, Department of Economics  
International Economics  
Phone: +49 (0) 201/1 83-3655, e-mail: [vclausen@vwl.uni-due.de](mailto:vclausen@vwl.uni-due.de)

Prof. Dr. Roland Döhrn, Prof. Dr. Manuel Frondel, Prof. Dr. Jochen Kluge  
RWI, Phone: +49 (0) 201/81 49-213, e-mail: [presse@rwi-essen.de](mailto:presse@rwi-essen.de)

## Editorial Office

Sabine Weiler  
RWI, Phone: +49 (0) 201/81 49-213, e-mail: [sabine.weiler@rwi-essen.de](mailto:sabine.weiler@rwi-essen.de)

## Ruhr Economic Papers #566

Responsible Editor: Roland Döhrn

All rights reserved. Bochum, Dortmund, Duisburg, Essen, Germany, 2015

ISSN 1864-4872 (online) – ISBN 978-3-86788-652-9

The working papers published in the Series constitute work in progress circulated to stimulate discussion and critical comments. Views expressed represent exclusively the authors' own opinions and do not necessarily reflect those of the editors.

---

**Ruhr Economic Papers #566**

Martin Micheli

**Does Height Affect Labor Supply?  
Implications of Product Variety  
and Caloric Needs**

## Bibliografische Informationen der Deutschen Nationalbibliothek

---

Die Deutsche Bibliothek verzeichnet diese Publikation in der deutschen Nationalbibliografie; detaillierte bibliografische Daten sind im Internet über:  
*<http://dnb.d-nb.de>* abrufbar.

<http://dx.doi.org/10.4419/86788652>

ISSN 1864-4872 (online)

ISBN 978-3-86788-652-9

---

Martin Micheli<sup>1</sup>

# Does Height Affect Labor Supply? Implications of Product Variety and Caloric Needs

## Abstract

*The positive correlation between hourly wages and height, which results in higher labor supply of tall individuals, is well-documented in the literature. Accepting the utilitarian perspective and assuming that height does not affect utility implies that linking income taxes to height is welfare improving. This paper argues that height might not only affect an individual's income but also utility from consumption. Higher caloric needs of tall individuals should result in higher consumption expenditures for food to satisfy these needs. Size specific products should result in lower product variety for sizes where aggregate demand is low, typically sizes for individuals in the tails of the height distribution. Introducing these two channels into a household's maximization problem we derive a labor supply equation that allows for an empirical test for the relevance of these two channels. We use the German Socio-Economic Panel Study to estimate this labor supply equation. Caloric needs do not have a significant effect on labor supply. Product choice, on the other hand, does increase labor supply significantly. This implies that purely focusing on income might not be optimal under the utilitarian framework for tax analysis.*

*JEL Classification: D11, D12, H21, J22*

*Keywords: Height; labor supply; utility; product variety; optimal taxation*

*July 2015*

---

<sup>1</sup> RWI. – The author would like to thank Deborah Cobb-Clark, Roland Döhrn, Matthias Hertweck, Vincent Pohl, Sandra Schaffner, Simeon Vosen and conference participants at the 29th ESPE Conference and the 4th SOLE/EALE Worlds Meetings for helpful comments on an earlier draft – All correspondence to: Martin Micheli, RWI, Hohenzollernstr. 1-3, 45128 Essen, Germany, e-mail: [Martin.Micheli@rwi-essen.de](mailto:Martin.Micheli@rwi-essen.de)

# 1 Introduction

The positive correlation between an individual's height and his or her labor income is well-documented for labor markets around the world, for developed as well as developing economies. In a survey on the role of stature in social sciences Steckel (2009) reports a total of ten papers dealing with the effect of height on wages. While there are several explanations for this positive correlation, the majority opinion seems to be that height is in some way indicative of an individual's productivity.

Height can be suggestive of physical strength (Thomas and Strauss, 1997; Strauss and Thomas, 1998) and health (Haddad and Bouis, 1991; Steckel, 1995, 2008). Therefore, a positive height premium seems to be intuitive for developing economies where labor is physically demanding.<sup>1</sup> However, this positive effect of height on wages has also been documented for developed economies (Schultz, 2002; Persico et al., 2004; Case and Paxson, 2008; Rashad, 2008; Lång and Nystedt, 2014). With the majority of white collar jobs in such economies, this raises the question of what the productivity advantage might be.

There are mainly two competing theories. Persico et al. (2004) argue that being tall as an adolescent facilitates the acquisition of social skills and this way promotes the formation of human capital resulting in higher wages. Case and Paxson (2008) challenge this view. They ascribe the positive height premium to a positive correlation between height and cognitive skills. Schick and Steckel (2010) show that tall children on average exhibit higher cognitive as well as non-cognitive skills.

While this paper is agnostic with respect to the driver of this correlation, both explanations have in common that tall individuals are assumed to be in some way blessed with higher productivity they bear no responsibility for.<sup>2</sup> As Mankiw and Weinzierl (2010) point out, the utilitarian perspective and optimal taxation theory, e.g. Mirrlees (1971), imply that such windfall gains should be taxed. Consequently, they argue that accepting the utilitarian view, one should advocate linking income taxes to height.<sup>3</sup> This conclusion implicitly assumes that height does not affect any other determinant of well-being. The authors note this and explicitly assume that “preferences are not a function of height” (Mankiw and Weinzierl, 2010, p. 157). However, to the best of our knowledge, there is no paper that explicitly tests for the validity of this assumption.

This paper aims at addressing this gap in the literature and thereby contributes to

---

<sup>1</sup>Dinda et al. (2006) find a positive height effect for wages of coal miners in India. Schultz (2002) shows that hourly wages in Ghana and Brazil positively depend on height.

<sup>2</sup>The fact that a healthy diet as a child increases height reinforces this effect as a healthy diet is typically more expensive and therefore correlated with parents' income.

<sup>3</sup>The authors explicitly do not share the utilitarian view.

the literature on the effect of stature on economic outcomes with implications for the literature on optimal taxation. The contribution is twofold. First, we introduce two channels through which height might affect individual utility into an otherwise standard household maximization problem. Second, we test for the empirical relevance of these two channels.

The two height-related channels are differing caloric needs and product variety. Caloric needs typically are increasing in height, c.p. resulting in higher consumption expenditures for food of tall individuals. As expenditures to stay alive might be thought of as sunk costs this c.p. reduces expenditures for pleasurable consumption. In the presence of size specific products such as clothing, product variety is lower for sizes where aggregate demand is low. As individuals typically value product choice, this results in a higher price level and lower marginal utility for individuals facing lower product choice. Demand for size specific products depends on two quantities: The number of potential customers and average consumption expenditures of individuals with similar physical features. As we document in Section 2.1 and Section 4, individuals' average consumption expenditures vary less than the number of individuals with similar size such that aggregate demand for size specific products is mainly driven by the number of potential customers. Therefore, product variety is relatively high in the mode and less so in the tails of the height distribution.

In the empirical application we use the German Socio-Economic Panel Study (SOEP) to estimate a labor supply equation for prime-aged males. Our findings suggest that differences in product variety affect individual labor supply significantly. An increase in aggregate consumption expenditures of individuals with similar height substantially increases labor supply. For caloric needs we do not find a significant effect.

## 2 Intuition

This section discusses the two height-related channels – differing product variety and differing caloric needs – that might affect individuals' utility.

### 2.1 Product variety

The assumption that utility is increasing in product variety is central to economics. Love-of-variety models, the most prominent one being Dixit-Stiglitz-preferences (Dixit and Stiglitz, 1977), have found their way into many different fields. Such preferences are one building block of New Keynesian models and central to the New Keynesian Phillips Curve and our understanding of inflation dynamics. They are an important ingredient in



New Economic Geography models<sup>4</sup> and central to international trade theory as increasing product variety is one channel through which countries benefit from globalization.

The effect of increasing product variety on national welfare due to increasing international trade has gained considerable attention in the trade literature, e.g. Broda and Weinstein (2006). However, product variety might also differ across individuals. There are mainly two reasons why product variety might be different. First, product variety for individuals living in rural areas might be substantially lower than in urban centers, which contributes to differences in house prices.<sup>5</sup> Second, product variety might be different if products come in different sizes and utility from consumption depends on an individual's characteristics.

An illustrative example for products that come in different sizes is clothing. It is easy to see that utility from wearing a shirt strongly depends on an individual's characteristics, her height. Assume that there is a shirt in an arbitrary size. An individual with the corresponding size will be able to derive utility from wearing this shirt. If the shirt only merely fits, utility from consuming this shirt will be somewhat lower. If the shirt does not fit at all, an individual will not be able to derive any utility from wearing it.

However, product variety is by no means uniformly-distributed, it strongly depends on product size. To put it differently, product choice for individuals at the mode of the height distribution is substantially higher than in the tails. Figure 1 shows this at the example of shoes by plotting the number of men's shoes for different sizes as available on Amazon Germany.

This example clearly shows that product variety is substantially higher for sizes where the number of potential customers is high. This is intuitive as the attractiveness of a market increases with aggregate purchasing power. The more or less symmetric distribution indicates that product variety is mainly driven by the number of potential customers. Higher average consumption expenditures of tall individuals, which might result from higher wages of tall individuals, do not seem to be the main driver of differences in product variety. If there are fixed costs in the production process, a larger number of potential customers translates into a larger number of different goods.<sup>6</sup>

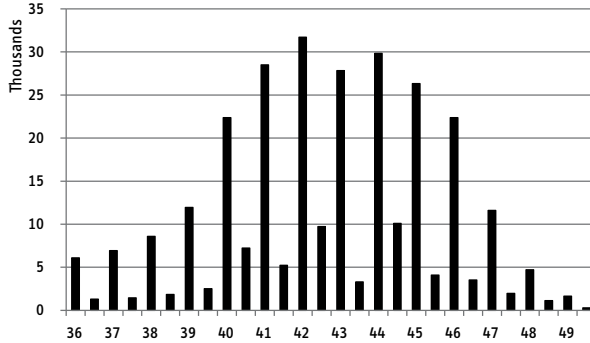
---

<sup>4</sup>As Krugman points out in Fujita and Krugman (2004, p. 142) "Dixit-Stiglitz, icebergs, evolution and the computer" is the slogan that summarizes the key ingredients in New Economic Geography.

<sup>5</sup>Product variety is important in understanding urban agglomeration and dispersion (Tabuchi, 1998). In a case study, Kim et al. (2005) show that easy access to products, measured by travel time to the closest shop, has a statistically significant positive effect on house prices in Oxfordshire, UK.

<sup>6</sup>In Section 3.1 we formally show that the number of potential customers affects product variety in an otherwise standard household maximization problem.

**Figure 1:** Number of different shoes for men by size



*Note:* Sizes between natural numbers represent half-sizes, which are substantially less frequent.  
*Source:* Amazon.de (Jan. 19, 2014), own illustration.

## 2.2 Caloric Needs

In the medical literature, it is well documented that stature has a non-negligible effect on an individual's metabolism. One early contribution is the seminal paper by Harris and Benedict (1918). They estimate caloric needs by measuring energy expenditures of individuals in good health as a function of age, body weight and body surface. For weight and body surface, which clearly depend on height, they find positive effects.

Following this seminal work, there is comprehensive literature further investigating the determinants for human energy expenditures using different methods and examining different population groups. One consistent finding seems to be that height is an important determinant for energy expenditures. By compiling 22 studies Schulz and Schoeller (1994) find that height has a significant and positive effect on an individual's energy expenditures. They also show that there are other important factors such as weight or age. However, unexplained variation is substantial, indicating the presence of further determinants. One example of such an additional factor might be physical activity, which should affect energy expenditures to a great extent.

If energy expenditures are increasing in height, tall individuals c.p. have higher caloric needs, require higher food intake and this way should exhibit higher expenditures for food. However, it is not clear that these expenditures, which are more or less expenditures to stay alive, are more beneficial to tall individuals than to shorter ones since the outcome – survival – is the same. The assumption in this paper is that utility from food intake to stay alive is similar for all individuals and is independent of height. This way, such expenditures represent sunk costs, which c.p. reduce tall individuals' income that is

available for pleasurable consumption.

### 3 The model

Let us now introduce the two channels through which height might affect individual utility into a standard household maximization problem. As we focus on individuals' labor supply decision, which is static, we can drop time indexes for simplicity.

#### 3.1 Product variety

Consumers differ with respect to height. Depending on height, individuals can be clustered into different groups. There are infinitely many non-overlapping clusters  $k$ , each cluster spanning over an identical amount of units of height  $\bar{a} = \bar{k} - \underline{k}$  with  $\bar{k}$  and  $\underline{k}$  the upper and lower boundaries of cluster  $k$ . Consumption goods are height specific. Each good comes in a specific size and only consumers whose height matches a product's size are able to derive utility from consuming this product.

Each individual  $i$  in cluster  $k$  bundles the different consumption goods  $c_{i,j,k}$  to the individual basket of consumption goods  $C_{i,k}$  she consumes.  $j$  identifies the individual product. All consumers bundle individual products according to the same CES function:

$$C_{i,k} = \left[ \int_{j \in \Omega_k} c_{i,j,k}^{\frac{\theta-1}{\theta}} dj \right]^{\frac{\theta}{\theta-1}}. \quad (1)$$

$\Omega_k$  represents the variety of available products in cluster  $k$ ,  $\theta$  is the elasticity of substitution between different products. It is well known that this setup results in the (cluster specific) price level  $P_k$  and the individuals' demand  $c_{i,j,k}$  for the individual consumption good  $j$  of size  $k$ , which can be written as

$$P_k = \left[ \int_{j \in \Omega_k} p_{j,k}^{1-\theta} dj \right]^{\frac{1}{1-\theta}} \quad (2)$$

and

$$c_{i,j,k} = \left( \frac{p_{j,k}}{P_k} \right)^{-\theta} C_{i,k}. \quad (3)$$

Individual good prices are given by  $p_{j,k}$ . Aggregation over all individuals in a height cluster results in the aggregate demand function for an individual size specific good

$$\int c_{i,j,k} di = [F(\bar{k}) - F(\underline{k})] c_{j,k} = [F(\bar{k}) - F(\underline{k})] \left( \frac{p_{j,k}}{P_k} \right)^{-\theta} C_k. \quad (4)$$

$c_{j,k}$  represents an individuals' average real consumption expenditures for the individual product  $j$  in cluster  $k$  and  $C_k$  represents the individuals' average real consumption expenditures for the product basket in cluster  $k$ .  $[F(\bar{k}) - F(\underline{k})]$  indicates the number of individuals in the respective height cluster.

Production takes place in homogenous firms. Each firm produces the quantity  $[F(\bar{k}) - F(\underline{k})] c_{j,k}$  of product  $j$  that is only valuable to individuals in cluster  $k$ . Following Melitz (2003), there are fixed costs in the production process. Each firm faces the production function  $[F(\bar{k}) - F(\underline{k})] c_{j,k} = A(l_{j,k} - f)$  with  $f$  representing fixed costs,  $l_{j,k}$  represents labor input standardized by productivity and  $A$  is the production technology. The production technology and fixed costs are identical for all firms in the economy. There is free market entry and exit. We can express total labor input of firm  $j$  producing for consumers in cluster  $k$  as  $l_{j,k} = \frac{[F(\bar{k}) - F(\underline{k})] c_{j,k}}{A} + f$ . Individual firm's profits  $d_{j,k}$  are thus given by

$$d_{j,k} = [F(\bar{k}) - F(\underline{k})] p_{j,k} c_{j,k} - wP \left( [F(\bar{k}) - F(\underline{k})] \frac{c_{j,k}}{A} + f \right) \quad (5)$$

with  $w$  the real wage for one unit of labor  $l_{j,k}$  standardized by productivity<sup>7</sup> and  $P$  is the aggregate price level in the economy. Cost minimization by firms implies that real marginal costs are given by  $\varphi = \frac{w}{A}$ . Using this as well as Equation (4) we can rewrite (5):

$$d_{j,k} = [F(\bar{k}) - F(\underline{k})] \left( \frac{p_{j,k}}{P_k} \right)^{1-\theta} C_k - \varphi \frac{P}{P_k} \left[ [F(\bar{k}) - F(\underline{k})] \left( \frac{p_{j,k}}{P_k} \right)^{-\theta} C_k + Af \right]. \quad (6)$$

Profit maximization by individual firms gives an expression for the individual firm's price mark-up over marginal costs  $\varphi$

$$\frac{p_{j,k}}{P} = \frac{\theta}{\theta - 1} \varphi. \quad (7)$$

It is easy to see that price setting for an individual product  $p_{j,k}$  is independent of the population size in the height cluster  $k$ . Furthermore, free market entry and exit implies that firms' profits are bound to be zero  $d_{j,k} = 0$  in equilibrium. Otherwise, e.g. in the presence of positive profits, new firms would have an incentive to enter the market which

<sup>7</sup>In Section 3.3 we allow for wages to vary with height taking into account the well-documented height premium for tall individuals. Therefore,  $w$  represents the economy wide compensation for labor that produces one arbitrarily standardized unit of output.

would drive down profits of incumbent firms till the no profit condition is satisfied.

Given the homogenous production function in the economy this implies that aggregate demand for the individual product  $c_{j,k}$  is independent of product size and this way also independent of the number of potential consumers.

$$[F(\bar{k}) - F(\underline{k})] c_{j,k} = Af(\theta - 1) \quad (8)$$

To link product variety to individuals' consumption and the price level in cluster  $k$  we make use of Equations (7) and (3), which show that the individual products' price markup is similar for all products ( $p_{j,k} = p_k = p$ ) and that demand for the individual product within a cluster is identical for all products ( $c_{j,k} = c_k$ ). Therefore, we can rewrite the individual consumers' consumption expenditures in cluster  $k$  as a function of the number of firms that produce for the respective height cluster.

$$P_k C_{i,k} = \int_{j \in \Omega_k} p_{j,k} c_{i,j,k} dj = \int_0^{n_k} p_k c_{i,j,k} dj = n_k p_k c_{i,k} \quad (9)$$

$n_k$  is the number of different products in cluster  $k$ , the measure for product variety. Rearranging yields an expression for product variety  $n_k = \frac{P_k C_{i,k}}{p_k c_{i,k}}$ . The symmetry of individual products and prices within a cluster allows us to rewrite Equations (1) and (2).

$$C_{i,k} = n_k^{\frac{\theta}{\theta-1}} c_{i,k} \quad (10)$$

$$P_k = n_k^{\frac{1}{1-\theta}} p_k \quad (11)$$

With  $\theta > 1$  it is easy to see that the value of an individual's consumption basket  $C_{i,k}$  increases with the number of available products  $n_k$ . On the other hand, the price level is a decreasing function of product variety.

However, measuring product variety for individuals seems impossible. That is why we combine Equations (11) and (9), to get an expression for the price level in cluster  $k$  as a function of aggregate consumption expenditures in the respective height cluster  $[F(\bar{k}) - F(\underline{k})] P_k C_k$ .

$$P_k = \left( \frac{Af\theta\varphi P}{[F(\bar{k}) - F(\underline{k})] P_k C_k} \right)^{\frac{1}{\theta-1}} \frac{\theta}{\theta-1} \varphi P \quad (12)$$

## 3.2 Caloric Needs

To implement daily caloric needs in our analysis we have to employ a shortcut. As we discuss in Section 4, we are not able to observe actual consumption expenditures for different product categories such as food. We only observe individual consumption expenditures as a whole. Let us therefore briefly discuss the implications of differing caloric needs resulting in height-specific sunk costs on individuals' utility.

If expenditures for food to satisfy caloric needs are sunk cost, utility should be decreasing in height as a smaller share of consumption expenditures is available for pleasurable consumption. Marginal utility, on the other hand, should be an increasing function of height. Holding consumption expenditures constant, tall individuals spend a lower fraction of consumption expenditures on pleasurable consumption and a larger one to satisfy caloric needs. Assuming a concave utility function for pleasurable consumption, marginal utility of consumption is therefore higher for tall individuals given similar levels of total consumption expenditures.

To replicate these two features of utility extraction we assume the following functional form:

$$U(C_{i,k}, H_{i,k}) = \frac{1}{1-\sigma} C_{i,k}^{1-\sigma} H_{i,k}^\varphi - (g(H_{i,k}))^\varphi \quad (13)$$

$H_{i,k}$  is the measure for caloric needs,  $g(H_{i,k})$  is function of caloric needs, representing the height specific utility loss due to sunk costs.

Employing assumptions with regard to the parameter  $\varphi$  allows us to replicate the properties of caloric needs representing sunk costs. Our baseline assumption is  $\varphi = 0$ . In this case, Equation (13) collapses to a standard utility function, implying that caloric needs are irrelevant. If  $\varphi \neq 0$ , differing caloric needs do have implications for utility and marginal utility of individuals.<sup>8</sup>

The standard assumptions of utility increasing in consumption ( $\frac{\partial U}{\partial C} > 0$ ) and marginal utility decreasing in consumption ( $\frac{\partial^2 U}{\partial C^2} < 0$ ) are unaffected by introducing caloric needs into the utility function. However, we now have  $\frac{\partial U}{\partial H} < 0$  if  $\frac{1}{1-\sigma} C^{1-\sigma} H^{\varphi-1} < \frac{\partial g}{\partial H} \varphi^{-1}$ . This represents the feature of tall individuals facing higher sunk costs and therefore exhibiting a lower utility level. The feature of increasing marginal utility in height ( $\frac{\partial^2 U}{\partial C \partial H} > 0$ ) is replicated, if  $\varphi > 0$ .

---

<sup>8</sup>As we test for the effect of height in a labor supply equation, we can only test for the effect of caloric needs on marginal utility, which is represented by the parameter  $\varphi$ . We do not test for any direct effects of caloric needs on the utility level, which is represented by  $(g(H_{i,k}))^\varphi$ .

### 3.3 Labor supply and height

To test whether height is an important ingredient in the utility function we now derive a labor supply equation for an individual in a height cluster  $k$ . Utility is separable in consumption  $C_{i,k}$  and labor  $L_{i,k}$ . Utility from consumption is derived according to Equation (13). Working time reduces utility. The utility function for individuals in cluster  $k$  takes the form

$$U(C_{i,k}, L_{i,k}, H_{i,k}) = \frac{1}{1-\sigma} C_{i,k}^{1-\sigma} H_{i,k}^\varphi - (g(H_{i,k}))^\varphi - \frac{\chi}{1+\eta} L_{i,k}^{1+\eta}. \quad (14)$$

$\eta$  is the inverse of the Frisch elasticity. Consumption expenditures are constrained by resources. We assume a very general budget constraint of the form

$$P_k C_{i,k} = (1 - \tau_{i,k}) w_{i,k} P L_{i,k} + P T_{i,k}. \quad (15)$$

$w_{i,k}$  are hourly earnings,  $\tau_{i,k}$  is the individual tax rate.  $T_{i,k}$  represents real (government) transfers as well as real net capital income. Labor supply in such a setup is described by the following equation:

$$\chi L_{i,k}^\eta = P_k^{-1} (1 - \tau_{i,k}) w_{i,k} P C_{i,k}^{-\sigma} H_{i,k}^\varphi \quad (16)$$

It is easy to see that Equation (16) collapses to a standard labor supply equation under the assumptions that consumption goods are not size specific (the price deflator for consumption goods is the same for all individuals,  $P_k = P$ ) and that caloric needs do not affect marginal utility ( $\varphi = 0$ ).

$$\chi L_{i,k}^\eta = (1 - \tau_{i,k}) w_{i,k} C_{i,k}^{-\sigma} \quad (17)$$

However, to allow for a test of the two proposed channels of height we proceed by substituting the cluster specific price level  $P_k$  (Equation 12) into Equation (16), which yields

$$\chi L_{i,k}^{1+\eta} = (1 - \tau_{i,k}) w_{i,k} P L_{i,k} (P_k C_{i,k})^{-\sigma} H_{i,k}^\varphi \left( \frac{A f \theta \varphi P}{[F(\bar{k}) - F(\underline{k})] P_k C_k} \right)^{\frac{\sigma-1}{\theta-1}} \left( \frac{\theta}{\theta-1} \varphi P \right)^{(\sigma-1)}. \quad (18)$$

Rearranging, employing a logarithmic transformation and redefining results in an

equation for hours worked ( $l_{i,k} = \log(L_{i,k})$ ) as a function of nominal after tax labor income ( $wl_{i,k} = \log((1 - \tau_{i,k})w_{i,k}PL_{i,k})$ ), the individual's consumption expenditures ( $pc_{i,k} = \log(P_k C_{i,k})$ ), a proxy for the individual's caloric needs ( $h_{i,k} = \log(H_{i,k})$ ), and aggregate consumption expenditures of individuals with similar height ( $pc_k = \log([F(\bar{k}) - F(\underline{k})] P_k C_k)$ ). Cluster-invariant terms such as the general price level, the production technology, marginal and fixed costs in the production process and the constant  $\log(\chi)$  are collected in  $b$ . The log-linearized labor supply equation reads

$$l_{i,k} = \frac{1}{1 + \eta} wl_{i,k} - \frac{\sigma}{1 + \eta} pc_{i,k} + \frac{\varphi}{1 + \eta} h_{i,k} + \frac{1 - \sigma}{(1 + \eta)(\theta - 1)} pc_k + \beta b. \quad (19)$$

An individual's labor supply increases in labor income and is negatively related to an individual's consumption expenditures, which is consistent with a labor supply equation resulting from a standard representative household's maximization problem. The two variables representing the channels of height are a proxy for an individual's caloric needs  $h_{i,k}$ , representing the channel of higher costs to stay alive, and aggregate consumption expenditures of similar individuals  $pc_k$ , representing the effect of product variety. For caloric needs we expect a positive effect on labor supply as being tall c.p. lowers expenditures for pleasurable consumption which increases marginal utility from consumption expenditures due to the concave utility function. Higher aggregate consumption expenditures of individuals with similar height result in an increased attractiveness for firms to produce for this audience, resulting in higher product variety and a lower price level. This way, marginal utility from consumption is higher for individuals at the mode of the height distribution which increases labor supply as disutility from working is unaffected by height.

## 4 Data

To test for the empirical relevance of the effect of height on marginal utility through the two proposed channels we estimate the labor supply Equation (19) using individual survey data. We use the German Socio Economic Panel Study (SOEP) to test for such effects in Germany. Similar to Schultz (2002) we restrict our sample to prime-aged males.<sup>9</sup> The SOEP is a longitudinal annual data study on biographies and living conditions of German households and individuals (Wagner et al., 2008). The data-set covers the years

---

<sup>9</sup>Prime-age is defined as the years from 25 to 55. We concentrate on males as it has been shown that female labor supply differs substantially from labor supply of males (Killingsworth and Heckman, 1986) and depends on factors we do not account for in the model.



1984 to 2012.<sup>10</sup> However, as questionnaires evolve and the set of questions has changed over time we have to reduce the sample period to the years 1992 to 2011.<sup>11</sup> Equation (19) consists of five variables we require data for: actual hours worked, after tax labor income, individual nominal consumption expenditures, a measure for caloric needs, and aggregate consumption expenditures of individuals with similar height.

For the number of hours worked  $l_{i,k}$ , our left hand side variable, we use the statement on actual weekly hours worked by the individual.<sup>12</sup> For after tax labor income  $wl_{i,k}$  we use the statement on the individuals' current net labor income.<sup>13</sup>

As there is no statement on individual consumption expenditures in the SOEP, we have to derive consumption expenditures as the difference between income and savings (Freyland, 2005; Drechsel-Grau and Schmid, 2014), which are available on the household level. As measure for household income we use adjusted monthly household net income<sup>14</sup> and subtract monthly savings<sup>15</sup>, which are available starting in 1992. Dissaving of households is not observed in the data as the variable indicating savings is defined to be positive. However, households reporting that they have not been saving might as well have been dissaving. To take this into account we construct two samples to check for the robustness of our results. Our first sample consists of all households for which we have information on the amount of monthly savings, including all households without monthly savings. Our second sample excludes households that report not to be saving and only consists of households that declare to have positive monthly savings.<sup>16</sup>

We are also not able to directly observe consumption expenditures for food. We therefore have to employ a shortcut and directly link our measure of individual caloric needs to labor supply. Our first measure is height. In the SOEP, height is available biannually starting in 2002.<sup>17</sup> As we are analyzing prime-aged males it is reasonable to

---

<sup>10</sup>We use the SOEP v29 doi:10.5684/soep.v29. The data-set has been generated using SOEPINFO-WWW available at <http://panel.gsoep.de/soepinfo2012/>

<sup>11</sup>The restriction to the first year being 1992 is due to the variable indicating household savings, which is available since 1992, only. The restriction to the last year being 2011 is due to household income not yet available for the year 2012.

<sup>12</sup>The variable is named *\$tzeit* with \$ in the variable name identifying the wave.

<sup>13</sup>The variable is named *labnet\$\$*, here \$\$ identifies the wave.

<sup>14</sup>The variable name is *ahinc\$\$*. \$\$ indicates the wave.

<sup>15</sup>The name for this variable does changes over time. In 1992, the first year this question is asked, the variable name is *ih5002*.

<sup>16</sup>In the SOEP there is a variable indicating whether or not a household is saving. Similar to the savings amount the variable name has changed over time. In the first year this respective question has been asked, 1992, the variable name is *ih5001*.

<sup>17</sup>The variable we use is *m11122\$\$*. \$\$ indicates the year of observation. This variable refers to self-reported height, which is potentially subject misreporting. Palta et al. (1982) show that in the US there is a statistically significant error between self-reported and measured height, which correlates with height. However, the authors asses this bias (as well as the one resulting from using self-reported weight) "would

assume that height does not change over time for these individuals. Therefore, we do not use reported height in the respective year. Instead, we construct our measure for height as the average of all reported values for each individual.<sup>18</sup> To check for robustness, we also employ a second measure. This one is based on the estimations by Mifflin et al. (1990). They derive an equation for an individual’s resting energy expenditures (REE), which can be converted to total energy expenditures (TEE), e.g. by multiplying REE by a factor of 1.7 for healthy men that are moderately active. However, this requires some additional information on body weight, which is not available to us.<sup>19</sup> We therefore compute REE assuming a body weight of healthy adults. We assume a body mass index (BMI) of 23. Such an “optimal” weight for each individual is computed according to:  $w_{opt} = BMI \left(\frac{height}{100}\right)^2$ . Given the information on an individual’s age<sup>20</sup> this allows us to compute REE according to the equation by Mifflin et al. (1990, Eq. 3):

$$REE = 9.99 w_{opt} + 6.25 height - 4.92 age + 5 . \quad (20)$$

The last right hand side variable in Equation (19) for which we require information on is aggregate consumption expenditures of individuals with similar height. However, from the empirical distribution of individual consumption expenditures with respect to height, it is a priori not clear what the “right” cluster size should be such that all individuals in the same cluster consume a similar basket of goods. We therefore use three different cluster sizes. Clusters span over 1cm, 2cm, and 4cm of height. In all cases, we begin by computing the average height of all prime-aged males in the respective year and build the first cluster surrounding this annual average. We then build the adjoining clusters. Aggregate consumption expenditures in the respective year are given by the sum of consumption expenditures of prime-aged males in the same height cluster that live in households with similar size. This leaves us with three different measures for aggregate consumption expenditures of individuals with similar size.<sup>21</sup>

---

be small and inconsequential in epidemiologic investigation” Palta et al. (1982, p. 230). We therefore are confident that the use of self-reported height does not invalidate the analysis in this paper.

<sup>18</sup>This seems to be a common procedure and has e.g. been applied by Schultz (2002), for the SOEP it has been applied by Hübler (2012).

<sup>19</sup>Body weight is available for some years in the SOEP. However, as weight is not fixed over time we cannot use a procedure similar to the one applied for height. Additionally to that, using weight might raise some concerns with regard to endogeneity as body weight might be a choice variable for adults.

<sup>20</sup>Age is coded *11101\$\$* with \$\$ indicating the wave.

<sup>21</sup>While small cluster sizes are more accurate with respect to individuals in a given cluster indeed consuming similar goods, larger cluster sizes loose precision in this respect. However, they are less prone to peculiarities of the empirical distribution of height. We choose 1cm as the minimum cluster size as individuals typically report natural number when asked about their height. This results in answers being clustered around natural numbers. Cluster sizes of less than one centimeter would result in some

Summary statistics for the constituents of aggregate consumption expenditures of individuals in the different height clusters, average consumption expenditures and the number of individuals in the different height clusters, are reported in Table 1. While variation in average consumption expenditures is non negligible, variation in the number of individuals in the different height clusters is substantially larger in relative terms. This seems to be in line with our presumption and the interpretation of Figure 1 that the number of individuals is the main driver of aggregate consumption expenditures in the different height clusters and therefore, of product variety.

Additionally to the information that is required to estimate Equation (19) we use information on the individuals' gender<sup>22</sup> as we want to restrict our analysis to males. We also restrict the analysis to individuals' that are not registered as unemployed.<sup>23</sup> As subdued labor supply of unemployed individuals is not due to a choice based on utility maximization but rather due to underemployment because individuals are not able to find an appropriate job, we exclude individuals that are registered as unemployed from the analysis. Finally, we use information on household size.<sup>24</sup> As we explore individual labor supply, we restrict our analysis to single person household. As a robustness check, we also construct a sample for households consisting of two individuals.<sup>25</sup>

In Table 1 we report the summary statistics for the relevant variables in the four samples. Individuals report to be working approximately 44 hours per week. Height does not seem to vary substantially across the four samples. Individuals report to be roughly 1.8m tall and aggregate consumption expenditures of saving and non-saving households seem to be quite similar. However, there are some differences with respect to age. One person households are slightly younger, but this does not translate into substantial differences in TEE. This seems plausible as Equation (20) shows that age is not the dominant variable driving REE and this way TEE. With respect to after tax labor income, this seems to be slightly higher for individuals in two person households and for individuals in households that are saving.<sup>26</sup> For individual consumption expenditures the difference between sav-

---

clusters not entailing any natural number, which would result in a drop of observations with respect to neighboring clusters and this way yield an implausible distribution function.

<sup>22</sup>The variable indicating the individuals' gender is *sex*

<sup>23</sup>The name for the variable indicating registration as being unemployed has changed over time. In the year 1992 it was named *ip09*.

<sup>24</sup>The respective variable in the SOEP is named *\$hhgr*, \$ identifying the year.

<sup>25</sup>We argue that there is a correlation of height in two person households. Tall males, on average, live with a partner that also is also taller than the respective population average, such that the effect of height might still be observed. We abstain from including households consisting of more than two individuals, as the presence of a third person, typically a child, affects the labor supply in a variety of ways we do not think we are able to control for.

<sup>26</sup>In this table we compare the different samples we use in our estimation. Therefore, we compare saving households with saving and non-saving households.

ing and non-saving households is relatively small, while variation across household size is substantial. However, consumption expenditures refer to the household, not the individual level. We therefore should expect higher consumption expenditures for two person households, but expenditures in two person households are substantially lower than the sum of two single person households.

To check for the presence of higher wages for tall individuals in the data-set, we estimate the correlation between hourly wages and height using the four different samples, presented above. Table 2 reports the results.<sup>27</sup> On average, tall individuals exhibit significantly higher wages.

## 5 Estimation Results

In a first step, we estimate Equation (19) by OLS. Standard errors are clustered on the individual level. This shows whether height has an effect on labor supply and thereby on marginal utility of consumption through one of the two proposed channels.

However, we are not only interested in the effect of height on labor supply, but also in estimating the underlying parameters. This might give us an intuition for the meaningfulness of our results as the literature gives us an idea about the values of these parameters. But the left hand side variable, working hours, also directly affects individuals' labor income and the decisions on working hours and individual consumption expenditures are, at least in theory, simultaneous decisions. Therefore, there are concerns with regard to endogeneity. To rule out correlation between regressors and residuals we apply an instrumental variable approach. We use the one period lagged values for the two instrumented variables, individual consumption expenditures  $pc_{i,k}$  and net labor income  $wl_{i,k}$ , as instruments, which is a common procedure in the literature (Yogo, 2004). Given rational expectations, each period, households decide on the current level as well as the expected path of economic variables. Future shocks are unforeseeable and therefore, current period shocks uncorrelated with lagged values of economic variables. This has been pointed out for consumption by Hall (1988) and is similarly applicable to labor income if the notice period of employment contracts is less than one year, which typically is the case. Employing an IV estimation we can estimate the individual households' labor supply equation in the time period from 1993 to 2011 as we need lagged variables as instruments. Again, standard errors are clustered on the individual level.

Section 5.1 presents the estimation results allowing for both channels of height to

---

<sup>27</sup>Both variables are included in logs. Hourly wages result from dividing labor income by hours worked.

have a simultaneous effect on labor supply. As height is the underlying factor for both channels, we proceed by estimating the effect of height allowing for only one channel at a time. This way, we want to verify that our results are not driven by a correlation between the two variables resulting in spurious significance. In Section 5.2 we present the estimation results allowing for an effect of caloric needs, only. In Section 5.3 we only allow for an effect of product variety. Section 5.4 presents additional robustness checks.

In our analysis we focus on one person households. The presence of additional individuals in the household, for which we do not have information on the physical status, might distort the analysis. In the IV estimation, we require households to consist of only one individual in period  $t$  and period  $t - 1$  as one period lagged values have been used in the first stage regression. In Section 5.4 we modify this assumption and also conduct estimations for two person households. Height between two individuals living in the same household is likely to be correlated such that height effects might still be detectable for two person households. We include time fixed effects to take into account potential time variation of variables such as the aggregate price level, included in  $b$ .

## 5.1 Joint Analysis

Let us first discuss the results of an OLS estimation for our baseline sample, all one person households, allowing for both channels of height simultaneously (Table 3).<sup>28</sup> Variables are defined as presented in Section 3.3. All variables have been transformed using the natural logarithm such that we can interpret coefficients as elasticities. Columns (1)-(3) show the results with height as proxy for caloric needs, in Columns (4)-(6) we report the results for the estimations with total energy expenditures based on Mifflin et al. (1990, Eq. 3) and a BMI of 23. All results are reported for the cluster sizes 1cm, 2cm, and 4cm. The channel of higher caloric needs due to height does not seem to play an important role. We find a negative coefficient for both measures of caloric needs, which is at odds with the proposed positive effect of caloric needs on marginal utility. A negative prefix implies that caloric needs do not have a positive, but a negative effect on marginal utility. However, the coefficient is insignificant in all cases. Differing product variety, on the other hand, has a significant effect on labor supply. The coefficient for aggregate consumption expenditures of individuals in the same height cluster is significant at the 5% level in all cases and has the expected positive sign. A 1% increase in aggregate consumption expenditures of individuals with similar height increases individual labor supply by roughly 0.03%. The

---

<sup>28</sup>To ensure comparability to the IV estimations, we require households to consist of one person in period  $t$  and period  $t - 1$ .

choice of the measure for caloric needs does not seem to affect the results.

Extracting parameter values requires valid estimates for the effect of labor income and consumption expenditures on labor supply. To obtain such estimates we re-estimate Equation (19) using one period lagged values as instruments for individual consumption expenditures and after tax labor income<sup>29</sup> (Table 4).<sup>30</sup> With regard to the standard variables in a labor supply equation the results seem to be in line with the respective literature. Higher labor income c.p. increases an individual’s labor supply as this makes working relatively more attractive. Higher consumption expenditures reduce labor supply as marginal utility of consumption is decreasing and leisure is becoming a relatively more desirable good. To further show that our estimation results are in line with the literature we compute the parameters from the households’ maximization problem. The estimate for the parameter  $\eta$  is approximately 1.4 in all estimations, implying a Frisch elasticity of labor supply of about 0.7. In a review of the literature Reichling and Whalen report: “Estimates of the Frisch elasticity for the intensive margin among men range from zero to 0.8.” (Reichling and Whalen, 2012, p. 4). In a meta-analysis Chetty et al. (2011) find a somewhat lower point estimate for the intensive margin of only about 0.54. With respect to the constant relative risk aversion, we find  $\sigma$  to be about 0.4, which implies that individuals are risk averse. Again, this seems to be in line with microeconomic evidence. In a laboratory experiment Holt and Laury (2002) find that “there is a lot of risk aversion, centered around the 0.3 – 0.5 range”, which is consistent with estimates in the respective literature (Holt and Laury, 2002, p. 1649).

With regard to the main interest of the paper, the effect of height, the IV estimation confirms the OLS results. Higher caloric needs do not have a significant effect on labor supply. Accordingly, the parameter  $\varphi$  is insignificant.<sup>31</sup> However, we want to stress that we employ some simplifying assumptions as individuals’ consumption expenditures for food are not directly observable. Additionally to that, height is only one factor driving caloric needs. Physical activity, which is another important determinant, does not seem

---

<sup>29</sup>Including average lagged consumption expenditures and labor income of individuals with similar height to allow for a test for overidentification hints at exogeneity of our instruments.

<sup>30</sup>Aggregate consumption expenditures should not be subject to endogeneity as an individual’s contribution to aggregate consumption expenditures in the respective height cluster should be negligible. However, the results are robust to including aggregate lagged instead of current period’s consumption expenditures of individuals with similar height.

<sup>31</sup>As the formula by Miffin et al. (1990) makes use of estimated parameters this requires an adjustment as estimated parameters are an additional source of uncertainty (Murphy and Topel, 1985). However, the procedure in case of clustered standard errors is not straightforward (Klonner and Oldiges, 2014). As the effect of an individual’s caloric needs is insignificant and the results are virtually identical to the estimation using height as proxy, which does not require the Murphy Topel-adjustment, we refrain from employing such an adjustment.

to be available in any such data-set, impeding a definite judgment.<sup>32</sup>

Product variety has a significant effect on labor supply on the 5% level. Again, 1% higher consumption expenditures of individuals with similar height increase labor supply by roughly 0.03%. For the elasticity of substitution between different products, we find a parameter  $\theta$  of about 9.4 – varying between 9.1 and 9.8 – implying a price markup of about 12%. This seems to be in line with standard assumptions of price markups of about 10% (Di Pace and Hertweck, 2012). Christiano et al. (2005) find a price markup of about 11% in a model with flexible prices for the US economy. Broda and Weinstein (2006) estimate the elasticity of substitution for different sectors. Their findings suggest slightly higher elasticities of substitution of about 13 for internationally traded goods on the ten-digit (HTS) sector level in the US in the more recent period 1991 to 2001.

## 5.2 Caloric Needs

Extending the standard labor supply Equation (17) to only allow for an effect of caloric needs as presented in Section 3.2, this results in the equation

$$l_{i,k} = \frac{1}{1+\eta} w l_{i,k} - \frac{\sigma}{1+\eta} p c_{i,k} + \frac{\varphi}{1+\eta} h_{i,k} + \beta b. \quad (21)$$

Variables are defined as presented in Section 3.3. The estimation results are reported in Table 5. As life cycle theory predicts an effect of age on labor supply we introduce age and age squared as additional controls in columns (2) and (5). In columns (3) and (6) we also control for the interview month as consumption expenditures and labor income might be subject to seasonal fluctuations.

Columns (1) to (3) show the results with height as proxy for caloric needs, in columns (4) to (6) we use TEE as given by Mifflin et al. (1990). The results are similar to the previous findings. In all cases, the coefficient for caloric needs is negative, which would imply a negative effect of height on marginal utility, which is in contrast to the proposed

---

<sup>32</sup>Physical activity at the job is one important part of an individual’s daily physical activity (Colman and Dave, 2013a). However, physical activity, and therefore caloric needs, might differ depending on the job. Having a blue-collar job typically is physically more demanding than being a white-collar worker. If height and physical activity at the job are negatively correlated this could result in lower caloric needs for tall individuals due to physically less demanding jobs. To take this into account we re-estimate Equation (19), this time allowing for caloric needs to have a differing effect on labor supply for blue-collar and non-blue-collar workers. However, the results are insensitive to including the proxy for caloric needs for the two job types separately. Differences of caloric needs on labor supply between the two job types are statistically insignificant. One explanation for the similar effect on labor supply might be that physical activity at the job is a substitute for recreational exercise (Colman and Dave, 2013b), which should result in more recreational exercise and therefore in higher caloric needs due to physical activity in the spare time for tall individuals.

positive effect. However, all coefficients are insignificant. The coefficients for labor income and consumption expenditures as well as the underlying parameters  $\eta$  and  $\sigma$  are in line with our expectations and very similar to the ones reported in Table 4. They are highly significant, at the 1% level in all cases.

### 5.3 Product Variety

Only allowing for product variety to differ results in the equation

$$l_{i,k} = \frac{1}{1 + \eta} w l_{i,k} - \frac{\sigma}{1 + \eta} p c_{i,k} + \frac{1 - \sigma}{(1 + \eta)(\theta - 1)} p c_k + \beta b . \quad (22)$$

Variable definitions are again consistent with Section 3.3. The results of estimating Equation (22) are reported in Table 6. In contrast to caloric needs, product variety has a significant effect on labor supply. An increase in aggregate consumption expenditures of individuals in the same height cluster of 1% increases individual labor supply by roughly 0.03%. The effect is statistically significant at the 5% level for the cluster sizes of 1cm and 2cm, at the 10% level for the broader cluster size of 4cm. The effects of labor income and consumption are very similar to the ones in Section 5.1.

### 5.4 Robustness Analysis

To check for the robustness of our results we proceed by running robustness checks using different samples as explained in Section 4. Let us start by excluding households that report not to be saving. Up till now, we have assumed net saving of 0 for these households. As they might as well be dissaving this would result in consumption expenditures being too low, which might distort the analysis. We report the estimation results excluding non-saving households in Table 7. The structure is similar to the one of Table 4. Again, we do not find a significant effect of caloric needs. With respect to product variety, the coefficient for aggregate consumption expenditures of individuals in the same height cluster is significant at the 5% level for the narrow cluster definition of 1cm, at the 10% level for the cluster sizes of 2cm and 4cm. We mainly ascribe the lower significance to the reduced sample size resulting in higher standard errors. Comparing the point estimates of the coefficients to the ones for the sample including all households (Table 4) shows that these are very similar.

To further test for the robustness of our results we estimate Equation (19) for all households consisting of two individuals (Table 8). In this case, the inverse of the Frisch elasticity  $\eta$  increases to about 3.6, which might reflect inter household substitution of



working hours.  $\sigma$  slightly decreases implying a somewhat lower risk aversion. With regard to variables affected by height, caloric needs do not affect labor supply as coefficients are insignificant. Differences in product variety, on the other hand, still seem important. Coefficients are significant on the 5% level for the cluster size of 1cm, on the 10% level for cluster sizes of 2cm and 4cm. The coefficients are substantially lower than the ones for single person households. An increase in the respective cluster's aggregate consumption expenditures by 1% increases individual labor supply by 0.013%. Equivalently, the coefficient of substitution between different goods  $\theta$  is slightly higher, implying a lower preference for individual products. The estimates range from 12.1 to 12.9.

Estimating Equation (19) for two person households, this time only using households that report that they have been saving (Table 9), yields similar results. There is no significant effect of caloric needs. The effect of product variety is significant, even though on the 10% level, only.

## 6 Concluding remarks

This paper derives a labor supply equation that allows for two channels through which height might affect individual labor supply, which are in excess of the well-known wage premium for tall individuals. First, caloric needs are increasing in height resulting in higher consumption expenditures for food, which might be thought of as sunk costs. Second, the presence of size specific products results in lower product variety, lower marginal utility of consumption and a higher price level for individuals in the tails of the height distribution.

Testing for the empirical relevance of these two channels, we find that caloric needs do not have a significant effect on individuals' labor supply. If there is an effect, marginal utility seems to be decreasing in height. There are several possible explanations for this. First, we use total energy expenditures and height as proxies for expenditures for food, because information on such expenditures is not available to us. These proxies might be inappropriate. Second, the effect might be superposed by other effects of height, which also affect utility. Marginal utility of consumption of tall individuals could be lower if similar products yield less utility. The discussion about the knee defender has brought this topic to public debate (Barro, 2014). Disutility of reduced moving space might be substantially higher for tall individuals when consuming e.g. transportation services. One could extend this line of thought and argue that tall individuals require e.g. a larger bed and that (marginal) utility from living space is therefore smaller for tall individuals. Third, the effect of differing caloric needs might indeed be economically irrelevant. For

product variety, on the other hand, we do find significant effects. For prime-aged males in single person households, an increase in aggregate consumption expenditures with similar height increases individual labor supply by about 0.03%.

Physical features do affect individual labor supply and therefore (marginal) utility of individuals in excess of the well-documented higher wages for tall individuals. The widespread negative attitude towards linking income taxes to height might reflect the intuition that the link between height and utility is substantially more complex than assumed in the literature. A tax code, simply linking income taxes to height wantonly neglects these additional channels, putting the proposed advantageousness of such a tax code into question. Therefore, the negative attitude towards this tax code does not necessarily reflect proponents of the utilitarian perspective being picky with regard to policy recommendations.

This also shows that great care is indispensable when choosing appropriate “tag-variables”. Such variables need not only be correlated with the opportunity to generate income. It is also necessary to ensure that such variables do not have a direct effect on or are correlated with other variables that might affect individual utility. Otherwise, such effects need to be taken into account.

## References

- Barro, J. (2014). Don't want me to recline my airline seat? You can pay me. The New York Times <http://nyti.ms/1mRVQUe>. last checked: 16.09.2014.
- Broda, C. and D. E. Weinstein (2006). Globalization and the gains from variety. *The Quarterly Journal of Economics* 121(2), 541–585.
- Case, A. and C. Paxson (2008). Stature and status: Height, ability, and labor market outcomes. *Journal of Political Economy* 116(3), 499–532.
- Chetty, R., A. Guren, D. Manoli, and A. Weber (2011). Are micro and macro labor supply elasticities consistent? A review of evidence on the intensive and extensive margins. *The American Economic Review: Papers & Proceedings* 101(3), 471–475.
- Christiano, L. J., M. Eichenbaum, and C. L. Evans (2005). Nominal rigidities and the dynamic effects of a shock to monetary policy. *Journal of Political Economy* 113(1), 1–45.
- Colman, G. and D. Dave (2013a). Exercise, physical activity, and exertion over the business cycle. *Social Science & Medicine* 93(0), 11–20.
- Colman, G. J. and D. M. Dave (2013b). Physical activity and health. Working Paper 18858, National Bureau of Economic Research.
- Di Pace, F. and M. S. Hertweck (2012). Labour market frictions, monetary policy and durable goods. Working paper 2012-09, Department of Economics, University of Konstanz.
- Dinda, S., P. Gangopadhyay, B. Chattopadhyay, H. Saiyed, M. Pal, and P. Bharati (2006). Height, weight and earnings among coalminers in India. *Economics & Human Biology* 4(3), 342–350.
- Dixit, A. K. and J. E. Stiglitz (1977). Monopolistic competition and optimum product diversity. *The American Economic Review* 67(3), 297–308.
- Drechsel-Grau, M. and K. D. Schmid (2014). Consumption-savings decisions under upward-looking comparisons. *Journal of Economic Behavior & Organization* 106, 254–268.

- Freyland, F. (2005). Household composition and savings: An empirical analysis based on the German SOEP data. MEA discussion paper series 05088, Munich Center for the Economics of Aging (MEA) at the Max Planck Institute for Social Law and Social Policy.
- Fujita, M. and P. Krugman (2004). The new economic geography: Past, present and the future. *Papers in Regional Science* 83(1), 139–164.
- Haddad, L. J. and H. E. Bouis (1991). The impact of nutritional status on agricultural productivity: Wage evidence from the Philippines. *Oxford Bulletin of Economics and Statistics* 53(1), 45–68.
- Hall, R. E. (1988). Intertemporal substitution in consumption. *Journal of Political Economy* 96(2), 339–357.
- Harris, J. A. and F. G. Benedict (1918). A biometric study of human basal metabolism. *Proceedings of the National Academy of Sciences of the United States of America* 4(12), 370–373.
- Holt, C. A. and S. K. Laury (2002). Risk aversion and incentive effects. *American Economic Review* 92(5), 1644–1655.
- Hübler, O. (2012). Are tall people less risk averse than others. Working paper, SOEPpapers.
- Killingsworth, M. R. and J. J. Heckman (1986). Female labor supply: A survey. *Handbook of labor economics* 1, 103–204.
- Kim, J. H., F. Pagliara, and J. Preston (2005). The intention to move and residential location choice behaviour. *Urban Studies* 42(9), 1621–1636.
- Klonner, S. and C. Oldiges (2014). Safety net for India’s poor or waste of public funds? Poverty and welfare in the wake of the world’s largest job guarantee program. Working Papers 0564, University of Heidelberg, Department of Economics.
- Lång, E. and P. Nystedt (2014). Does tallness pay off in the long run? Height and life-cycle earnings. mimeo.
- Mankiw, N. G. and M. Weinzierl (2010). The optimal taxation of height: A case study of utilitarian income redistribution. *American Economic Journal: Economic Policy* 2(1), 155–176.

- Melitz, M. J. (2003). The impact of trade on intra-industry reallocations and aggregate industry productivity. *Econometrica* 71(6), 1695–1725.
- Mifflin, M. D., S. T. St Jeor, L. A. Hill, B. J. Scott, S. A. Daugherty, and Y. O. Koh (1990). A new predictive equation for resting energy expenditure in healthy individuals. *The American Journal of Clinical Nutrition* 51(2), 241–7.
- Mirrlees, J. A. (1971). An exploration in the theory of optimum income taxation. *The Review of Economic Studies* 38(2), 175–208.
- Murphy, K. M. and R. H. Topel (1985). Estimation and inference in two-step econometric models. *Journal of Business & Economic Statistics* 3(4), 88–97.
- Palta, M., R. J. Prineas, R. Berman, and P. Hannan (1982). Comparison of self-reported and measured height and weight. *American Journal of Epidemiology* 115(2), 223–230.
- Persico, N., A. Postlewaite, and D. Silverman (2004, October). The effect of adolescent experience on labor market outcomes: The case of height. *Journal of Political Economy* 112(5), 1019–1053.
- Rashad, I. (2008). Height, health, and income in the US, 1984–2005. *Economics & Human Biology* 6(1), 108 – 126.
- Reichling, F. and C. Whalen (2012). Review of estimates of the frisch elasticity of labor supply. Working paper, Congressional Budget Office.
- Schick, A. and R. H. Steckel (2010, December). Height as a proxy for cognitive and non-cognitive ability. Working Paper 16570, National Bureau of Economic Research.
- Schultz, T. P. (2002). Wage gains associated with height as a form of health human capital. *The American Economic Review: Papers & Proceedings* 92(2), 349–353.
- Schulz, L. O. and D. A. Schoeller (1994). A compilation of total daily energy expenditures and body weights in healthy adults. *The American Journal of Clinical Nutrition* 60(5), 676–81.
- Steckel, R. H. (1995). Stature and the standard of living. *Journal of Economic Literature* 33(4), 1903–1940.
- Steckel, R. H. (2008). Biological measures of the standard of living. *The Journal of Economic Perspectives* 22(1), 129–152.

- Steckel, R. H. (2009). Heights and human welfare: Recent developments and new directions. *Explorations in Economic History* 46(1), 1 – 23. Special Issue on Heights and Human Welfare.
- Strauss, J. and D. Thomas (1998). Health, nutrition, and economic development. *Journal of Economic Literature* 36(2), 766–817.
- Tabuchi, T. (1998). Urban agglomeration and dispersion: A synthesis of Alonso and Krugman. *Journal of Urban Economics* 44(3), 333 – 351.
- Thomas, D. and J. Strauss (1997). Health and wages: Evidence on men and women in urban Brazil. *Journal of Econometrics* 77(1), 159 – 185.
- Wagner, G. G., J. Göbel, P. Krause, R. Pischner, and I. Sieber (2008). Das Sozio-oekonomische Panel (SOEP): Multidisziplinäres Haushaltspanel und Kohortenstudie für Deutschland - Eine Einführung (für neue Datennutzer) mit einem Ausblick (für erfahrene Anwender). *AStA Wirtschafts-und Sozialstatistisches Archiv* 2(4), 301–328.
- Yogo, M. (2004). Estimating the elasticity of intertemporal substitution when instruments are weak. *The Review of Economics and Statistics* 86(3), 797–810.

**Table 1: Summary Statistics, 1992 - 2011**

	One Person Households						Two Person Households					
	all HH			saving HH			all HH			saving HH		
	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	N
Working hours, weekly	43.19	10.18	6591	43.08	9.18	4370	44.07	9.79	12388	44.04	9.19	9487
Net labor income, monthly	1634.74	914.42	6742	1799.37	998.18	4441	1758.29	974.37	12732	1838.07	995.73	9679
Household consumption expenditures, monthly	1429.92	837.77	7225	1485.56	912.02	4561	2406.30	1260.05	13470	2410.27	1232.06	10018
Height	178.95	6.96	6793	179.12	6.92	4289	178.76	7.04	12440	179.15	7.00	9251
Caloric needs (TEE)	2829.19	195.88	6793	2833.56	193.97	4289	2807.97	207.03	12440	2820.10	206.15	9251
Age	39.68	8.53	7225	39.66	8.49	4561	41.58	9.37	13470	41.27	9.31	10018
Aggregate consumption expenditures (1cm cluster), monthly	2.24e+08	1.59e+08	6793	2.23e+08	1.60e+08	4289	3.85e+08	2.32e+08	12440	3.83e+08	2.31e+08	9251
Aggregate consumption expenditures (2cm cluster), monthly	4.06e+08	2.36e+08	6793	4.03e+08	2.34e+08	4289	7.06e+08	3.83e+08	12440	7.04e+08	3.81e+08	9251
Aggregate consumption expenditures (4cm cluster), monthly	7.97e+08	4.62e+08	6793	7.92e+08	4.58e+08	4289	1.37e+09	7.18e+08	12440	1.37e+09	7.12e+08	9251
Average consumption expenditures (1cm cluster), monthly	1352.11	283.39	6793	1349.02	288.01	4289	2363.50	536.24	12440	2362.32	538.13	9251
Average consumption expenditures (2cm cluster), monthly	1348.47	248.60	6793	1348.39	256.56	4289	2360.70	493.66	12440	2360.84	492.66	9251
Average consumption expenditures (4cm cluster), monthly	1345.33	207.93	6793	1342.89	209.61	4289	2353.30	471.41	12440	2357.30	469.03	9251
Weighted number of individuals in 1cm cluster	161758.34	105515.12	6793	161186.76	106388.24	4289	161066.38	85729.38	12440	160671.57	85443.01	9251
Weighted number of individuals in 2cm cluster	295128.96	159578.92	6793	293230.39	157735.12	4289	294035.79	132650.72	12440	293394.04	131478.06	9251
Weighted number of individuals in 4cm cluster	580239.60	313729.80	6793	577799.28	310819.72	4289	570591.98	246081.69	12440	570226.40	243023.14	9251

**Table 2:** Height Premium

	Hourly wages			
	One Person		Two Persons	
	all (1)	saving (2)	all (3)	saving (4)
Constant	-2.7094 (2.3049)	-2.0300 (2.5826)	-4.7877*** (1.4317)	-2.9522* (1.5976)
Height	0.9417** (0.4451)	0.8275* (0.4985)	1.3531*** (0.2761)	1.0090*** (0.3081)
Observations	4114	3980	11434	8766
R <sup>2</sup>	0.0067	0.0062	0.0126	0.0076
Individuals	1479	1128	2971	2540

Standard errors clustered on the individual level in parentheses.  
All variables in logs. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .



**Table 3:** OLS Estimation for all one Person Households

	Hours worked					
	(1)	(2)	(3)	(4)	(5)	(6)
Height	-0.3608 (0.2576)	-0.3600 (0.2573)	-0.3720 (0.2574)			
Caloric needs				-0.2311 (0.1657)	-0.2307 (0.1655)	-0.2387 (0.1656)
Consumption <sub>k</sub> (1cm cluster)	0.0268** (0.0115)			0.0268** (0.0115)		
Consumption <sub>k</sub> (2cm cluster)		0.0264** (0.0134)			0.0265** (0.0134)	
Consumption <sub>k</sub> (4cm cluster)			0.0295** (0.0140)			0.0296** (0.0140)
Labor income	0.3596*** (0.0518)	0.3589*** (0.0519)	0.3582*** (0.0519)	0.3597*** (0.0518)	0.3589*** (0.0519)	0.3582*** (0.0519)
Consumption <sub>i,k</sub>	-0.0878*** (0.0321)	-0.0850*** (0.0321)	-0.0846*** (0.0321)	-0.0878*** (0.0321)	-0.0850*** (0.0321)	-0.0846*** (0.0321)
Year	Yes	Yes	Yes	Yes	Yes	Yes
Age, age <sup>2</sup>	Yes	Yes	Yes	Yes	Yes	Yes
Interview month	Yes	Yes	Yes	Yes	Yes	Yes
Observations	6199	6199	6199	6199	6199	6199
R <sup>2</sup>	0.257	0.257	0.258	0.257	0.257	0.258
Individuals	1479	1479	1479	1479	1479	1479

Standard errors clustered on the individual level in parentheses. All variables except the controls 'Age, age<sup>2</sup>', 'Interview month', and 'Year' in logs. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

**Table 4:** IV Estimation for all one Person Households

	Hours worked					
	(1)	(2)	(3)	(4)	(5)	(6)
Height	-0.3160 (0.2531)	-0.3165 (0.2533)	-0.3270 (0.2536)			
Caloric needs				-0.2044 (0.1630)	-0.2047 (0.1632)	-0.2117 (0.1635)
Consumption <sub>k</sub> (1cm cluster)	0.0293** (0.0119)			0.0294** (0.0119)		
Consumption <sub>k</sub> (2cm cluster)		0.0274** (0.0136)			0.0275** (0.0136)	
Consumption <sub>k</sub> (4cm cluster)			0.0285** (0.0143)			0.0286** (0.0143)
Labor income	0.4139*** (0.0681)	0.4121*** (0.0683)	0.4117*** (0.0684)	0.4140*** (0.0681)	0.4122*** (0.0683)	0.4117*** (0.0683)
Consumption <sub>i,k</sub>	-0.1768*** (0.0619)	-0.1720*** (0.0618)	-0.1719*** (0.0619)	-0.1769*** (0.0619)	-0.1720*** (0.0618)	-0.1720*** (0.0619)
Year	Yes	Yes	Yes	Yes	Yes	Yes
Age, age <sup>2</sup>	Yes	Yes	Yes	Yes	Yes	Yes
Interview month	Yes	Yes	Yes	Yes	Yes	Yes
$\eta$	1.4160*** (0.3977)	1.4263*** (0.4019)	1.4292*** (0.4034)	1.4157*** (0.3975)	1.4260*** (0.4018)	1.4289*** (0.4032)
$\sigma$	0.4272*** (0.0917)	0.4173*** (0.0927)	0.4176*** (0.0929)	0.4273*** (0.0917)	0.4174*** (0.0927)	0.4177*** (0.0929)
$\theta$	9.0837** (3.6052)	9.7590** (4.6288)	9.4118** (4.5028)	9.0683** (3.5952)	9.7376** (4.6112)	9.3896** (4.4843)
$\varphi$	-0.7634 (0.6076)	-0.7679 (0.6114)	-0.7944 (0.6135)	-0.4937 (0.3917)	-0.4966 (0.3943)	-0.5142 (0.3959)
Observations	5869	5869	5869	5869	5869	5869
R <sup>2</sup>	0.207	0.207	0.208	0.207	0.207	0.208
F-stat (excl. iv)	73.86	73.03	72.76	73.87	73.03	72.76
Individuals	1410	1410	1410	1410	1410	1410

One period lagged values as instruments for labor income and consumption<sub>i,k</sub>. Standard errors clustered on the individual level in parentheses. All variables except the controls 'Age, age<sup>2</sup>', 'Interview month', and 'Year' in logs. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

**Table 5:** IV Estimation for all one Person Households, only caloric needs channel

	Hours worked					
	(1)	(2)	(3)	(4)	(5)	(6)
Height	-0.2776 (0.2519)	-0.3125 (0.2584)	-0.3132 (0.2579)			
Caloric needs				-0.0848 (0.1333)	-0.2009 (0.1663)	-0.2013 (0.1660)
Labor income	0.4144*** (0.0702)	0.4163*** (0.0688)	0.4168*** (0.0685)	0.4123*** (0.0702)	0.4163*** (0.0688)	0.4168*** (0.0685)
Consumption <sub>i,k</sub>	-0.1761*** (0.0625)	-0.1750*** (0.0623)	-0.1738*** (0.0624)	-0.1759*** (0.0628)	-0.1751*** (0.0623)	-0.1738*** (0.0624)
Year	Yes	Yes	Yes	Yes	Yes	Yes
Age, age <sup>2</sup>	No	Yes	Yes	No	Yes	Yes
Interview month	No	No	Yes	No	No	Yes
$\eta$	1.4129*** (0.4088)	1.4022*** (0.3973)	1.3995*** (0.3947)	1.4256*** (0.4129)	1.4020*** (0.3972)	1.3993*** (0.3946)
$\sigma$	0.4249*** (0.0900)	0.4204*** (0.0921)	0.4169*** (0.0930)	0.4268*** (0.0909)	0.4205*** (0.0921)	0.4170*** (0.0930)
$\varphi$	-0.6698 (0.6035)	-0.7507 (0.6179)	-0.7515 (0.6161)	-0.2057 (0.3194)	-0.4826 (0.3979)	-0.4829 (0.3967)
Observations	5869	5869	5869	5869	5869	5869
R <sup>2</sup>	0.198	0.201	0.202	0.197	0.201	0.202
F-stat (excl. iv)	72.97	73.14	72.74	72.97	73.14	72.75
Individuals	1410	1410	1410	1410	1410	1410

One period lagged values as instruments for labor income and consumption<sub>i,k</sub>. Standard errors clustered on the individual level in parentheses. All variables except the controls 'Age, age<sup>2</sup>', 'Interview month', and 'Year' in logs. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

**Table 6:** IV Estimation for all one Person Households, only product variety channel

	Hours worked								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Consumption <sub>k</sub> (1cm cluster)	0.0299** (0.0120)	0.0292** (0.0119)	0.0293** (0.0120)						
Consumption <sub>k</sub> (2cm cluster)				0.0283** (0.0139)	0.0272** (0.0137)	0.0273** (0.0138)			
Consumption <sub>k</sub> (4cm cluster)							0.0288** (0.0145)	0.0281* (0.0144)	0.0281* (0.0144)
Labor income	0.4097** (0.0698)	0.4099** (0.0683)	0.4102** (0.0680)	0.4080** (0.0699)	0.4081** (0.0685)	0.4084** (0.0682)	0.4076** (0.0700)	0.4076** (0.0686)	0.4079** (0.0683)
Consumption <sub>k,k</sub>	-0.1787** (0.0624)	-0.1777** (0.0623)	-0.1763** (0.0624)	-0.1737** (0.0623)	-0.1729** (0.0622)	-0.1715** (0.0623)	-0.1735** (0.0624)	-0.1726** (0.0623)	-0.1714** (0.0624)
Year	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Age, age <sup>2</sup>	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes
Interview month	No	No	Yes	No	No	Yes	No	No	Yes
$\eta$	1.4406** (0.4157)	1.4394** (0.4065)	1.4380** (0.4043)	1.4511** (0.4201)	1.4504** (0.4111)	1.4484** (0.4089)	1.4536** (0.4216)	1.4534** (0.4128)	1.4518** (0.4107)
$\sigma$	0.4362** (0.0897)	0.4335** (0.0920)	0.4299** (0.0930)	0.4258** (0.0908)	0.4236** (0.0930)	0.4199** (0.0940)	0.4257** (0.0912)	0.4235** (0.0933)	0.4203** (0.0943)
$\theta$	8.7379** (3.4509)	8.9511** (3.5959)	8.9874** (3.6323)	9.2877** (4.3694)	9.6468** (4.6777)	9.6731** (4.6964)	9.1188** (4.4074)	9.3728** (4.6058)	9.4134** (4.6522)
Observations	5869	5869	5869	5869	5869	5869	5869	5869	5869
R <sup>2</sup>	0.202	0.205	0.206	0.203	0.206	0.206	0.204	0.206	0.207
F-stat (excl. iv)	73.07	73.38	73.03	72.25	72.51	72.15	72.00	72.24	71.88
Individuals	1410	1410	1410	1410	1410	1410	1410	1410	1410

One period lagged values as instruments for labor income and consumption<sub>k,k</sub>. Standard errors clustered on the individual level in parentheses. All variables except the controls 'Age, age<sup>2</sup>', 'Interview month', and 'Year' in logs. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

**Table 7:** IV Estimation for saving one Person Households

	Hours worked					
	(1)	(2)	(3)	(4)	(5)	(6)
Height	-0.0428 (0.2771)	-0.0459 (0.2776)	-0.0653 (0.2811)			
Caloric needs				-0.0316 (0.1784)	-0.0338 (0.1789)	-0.0464 (0.1811)
Consumption <sub>ik</sub> (1cm cluster)	0.0267** (0.0133)			0.0267** (0.0133)		
Consumption <sub>ik</sub> (2cm cluster)		0.0291* (0.0162)			0.0292* (0.0162)	
Consumption <sub>ik</sub> (4cm cluster)			0.0323* (0.0172)			0.0323* (0.0172)
Labor income	0.2927*** (0.0492)	0.2902*** (0.0487)	0.2901*** (0.0490)	0.2929*** (0.0492)	0.2904*** (0.0487)	0.2902*** (0.0490)
Consumption <sub>i,k</sub>	-0.0937** (0.0408)	-0.0886** (0.0398)	-0.0889** (0.0400)	-0.0937** (0.0408)	-0.0887** (0.0398)	-0.0890** (0.0400)
Year	Yes	Yes	Yes	Yes	Yes	Yes
Age, age <sup>2</sup>	Yes	Yes	Yes	Yes	Yes	Yes
Interview month	Yes	Yes	Yes	Yes	Yes	Yes
$\eta$	2.4161*** (0.5744)	2.4456*** (0.5785)	2.4473*** (0.5827)	2.4146*** (0.5736)	2.4440*** (0.5777)	2.4456*** (0.5818)
$\sigma$	0.3201*** (0.1027)	0.3054*** (0.1019)	0.3066*** (0.1023)	0.3201*** (0.1027)	0.3055*** (0.1018)	0.3066*** (0.1022)
$\theta$	8.4610** (4.1588)	7.9171* (4.1494)	7.2245** (3.6342)	8.4612** (4.1631)	7.9165* (4.1533)	7.2214** (3.6340)
$\varphi$	-0.1463 (0.9460)	-0.1583 (0.9564)	-0.2250 (0.9686)	-0.1080 (0.6088)	-0.1164 (0.6159)	-0.1599 (0.6237)
Observations	3980	3980	3980	3980	3980	3980
R <sup>2</sup>	0.174	0.176	0.178	0.174	0.176	0.178
F-stat (excl. iv)	47.31	46.97	46.82	47.30	46.96	46.81
Individuals	1090	1090	1090	1090	1090	1090

One period lagged values as instruments for labor income and consumption<sub>i,k</sub>. Standard errors clustered on the individual level in parentheses. All variables except the controls 'Age, age<sup>2</sup>', 'Interview month', and 'Year' in logs. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

**Table 8:** IV Estimation for all two Person Households

	Hours worked					
	(1)	(2)	(3)	(4)	(5)	(6)
Height	-0.0534 (0.1340)	-0.0519 (0.1340)	-0.0534 (0.1338)			
Caloric needs				-0.0340 (0.0851)	-0.0330 (0.0852)	-0.0341 (0.0850)
Consumption <sub>ik</sub> (1cm cluster)	0.0132** (0.0066)			0.0132** (0.0066)		
Consumption <sub>ik</sub> (2cm cluster)		0.0125* (0.0068)			0.0125* (0.0068)	
Consumption <sub>ik</sub> (4cm cluster)			0.0130* (0.0073)			0.0130* (0.0073)
Labor income	0.2160*** (0.0281)	0.2164*** (0.0281)	0.2159*** (0.0281)	0.2160*** (0.0281)	0.2164*** (0.0281)	0.2159*** (0.0281)
Consumption <sub>i,k</sub>	-0.0685** (0.0304)	-0.0681** (0.0306)	-0.0679** (0.0305)	-0.0685** (0.0304)	-0.0681** (0.0306)	-0.0679** (0.0305)
Year	Yes	Yes	Yes	Yes	Yes	Yes
Age, age <sup>2</sup>	Yes	Yes	Yes	Yes	Yes	Yes
Interview month	Yes	Yes	Yes	Yes	Yes	Yes
$\eta$	3.6303*** (0.6033)	3.6217*** (0.6002)	3.6318*** (0.6024)	3.6304*** (0.6033)	3.6218*** (0.6002)	3.6318*** (0.6024)
$\sigma$	0.3171*** (0.1153)	0.3149*** (0.1160)	0.3146*** (0.1162)	0.3171*** (0.1153)	0.3149*** (0.1160)	0.3146*** (0.1162)
$\theta$	12.1552** (6.0042)	12.8671* (6.7359)	12.3741* (6.6445)	12.1368** (5.9856)	12.8433* (6.7113)	12.3505* (6.6158)
$\varphi$	-0.2471 (0.6192)	-0.2398 (0.6182)	-0.2475 (0.6185)	-0.1573 (0.3935)	-0.1527 (0.3929)	-0.1582 (0.3929)
Observations	10834	10834	10834	10834	10834	10834
R <sup>2</sup>	0.092	0.092	0.092	0.092	0.092	0.092
F-stat (excl. iv)	65.58	65.45	65.15	65.53	65.41	65.11
Individuals	2828	2828	2828	2828	2828	2828

One period lagged values as instruments for labor income and consumption<sub>i,k</sub>. Standard errors clustered on the individual level in parentheses. All variables except the controls 'Age, age<sup>2</sup>', 'Interview month', and 'Year' in logs. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

**Table 9:** IV Estimation for saving two Person Households

	Hours worked					
	(1)	(2)	(3)	(4)	(5)	(6)
Height	0.0490 (0.1466)	0.0518 (0.1464)	0.0517 (0.1464)			
Caloric needs				0.0305 (0.0929)	0.0321 (0.0929)	0.0319 (0.0928)
Consumption <sub>ik</sub> (1cm cluster)	0.0134* (0.0077)			0.0134* (0.0077)		
Consumption <sub>ik</sub> (2cm cluster)		0.0139* (0.0079)			0.0139* (0.0079)	
Consumption <sub>ik</sub> (4cm cluster)			0.0141* (0.0084)			0.0140* (0.0084)
Labor income	0.2210*** (0.0359)	0.2214*** (0.0358)	0.2211*** (0.0358)	0.2210*** (0.0359)	0.2214*** (0.0358)	0.2211*** (0.0358)
Consumption <sub>i,k</sub>	-0.0700* (0.0372)	-0.0701* (0.0374)	-0.0699* (0.0374)	-0.0700* (0.0372)	-0.0700* (0.0374)	-0.0699* (0.0374)
Year	Yes	Yes	Yes	Yes	Yes	Yes
Age, age <sup>2</sup>	Yes	Yes	Yes	Yes	Yes	Yes
Interview month	Yes	Yes	Yes	Yes	Yes	Yes
$\eta$	3.5254*** (0.7350)	3.5165*** (0.7307)	3.5228*** (0.7323)	3.5252*** (0.7350)	3.5163*** (0.7307)	3.5225*** (0.7323)
$\sigma$	0.3166** (0.1373)	0.3164** (0.1381)	0.3163** (0.1382)	0.3166** (0.1373)	0.3163** (0.1381)	0.3162** (0.1382)
$\theta$	12.2626* (6.9258)	11.8677* (6.4052)	11.7542* (6.7046)	12.2800* (6.9432)	11.8890* (6.4267)	11.7765* (6.7240)
$\varphi$	0.2217 (0.6661)	0.2341 (0.6643)	0.2337 (0.6655)	0.1378 (0.4220)	0.1449 (0.4212)	0.1444 (0.4215)
Observations	8404	8404	8404	8404	8404	8404
R <sup>2</sup>	0.083	0.083	0.083	0.083	0.083	0.083
F-stat (excl. iv)	45.93	45.96	45.77	45.89	45.93	45.74
Individuals	2432	2432	2432	2432	2432	2432

One period lagged values as instruments for labor income and consumption<sub>i,k</sub>. Standard errors clustered on the individual level in parentheses. All variables except the controls 'Age, age<sup>2</sup>', 'Interview month', and 'Year' in logs. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .