Press Release

Mannheim University professor Michelle Sovinsky receives EU grant of 1.2 million Euros

Mannheim economist Prof. Michelle Sovinsky has been awarded a Consolidator Grant from the European Research Council for her project entitled FORENSICS. The project addresses three markets in which unobserved behavior plays a crucial role: illicit drugs, counterfeit products and illegal competition. The grant amounts to 1.2 million Euros and is awarded for a total of five years.

In January, the German government voted to legalize marijuana, or cannabis, for medicinal purposes. Severely ill patients are now able to obtain the drug legally with a prescription. Germany joins more than 20 other countries that are currently exploring the possible benefits of legalization of cannabis – both for medicinal purposes and for personal use. Yet their plans raise a number of questions: If marijuana is legalized, how will teenagers for example change their use of other products, such as alcohol and cigarettes? And what implications will that have on health and tax revenues? Substitution between illicit and licit products is one of the topics addressed by Prof. Michelle Sovinsky in her ERC awarded project. “For policy makers it is extremely valuable to know whether an increase in marijuana taxes today will impact use across a portfolio of products in the future,” says Sovinsky.

Illicit products such as drugs are just one part of Sovinsky’s ERC awarded project. The second concerns product counterfeits and markets with unknown competitors. She illustrates its mechanisms on the example of luxury handbags. “We do not know a lot about how firms react to their rivals selling counterfeit products,” says Sovinsky. At the same time, the global turnover of fake products amounts to 600 billion US-dollars, according to the International Chamber of Commerce. Some of the luxury product makers such as Louis Vuitton give hints on their websites how to distinguish fake handbags from real ones. Others are happy about free advertising. Yet solid scientific findings about their economic behavior are still lacking.

A third aspect of her research concentrates on illegal competition: when firms use legal means in an illegal way. What happens for example, when a large computer chip producer attempts to force a small rival out of the market – even if it happens by means of legal practices? Here, Sovinsky’s research is based on the real case of competition between market leader Intel and its smaller rival Advanced Micro Devices (AMD). Back in 2005, AMD sued Intel citing questionable business tactics Intel had been using against AMD.

“My goal is to give policy makers tangible tools that accurately reflect the unobserved nature of this type of markets,” says the US-American researcher. To achieve this she collects
empirical data and develops models to give conclusions about the economic behavior of companies and consumers: “My project has the potential to make a sizeable impact on politics and society”, says Sovinsky. Last year for example, her research results were part of an ongoing debate in Italy about whether or not to legalize marijuana. Her publication was widely cited and commented on in leading Italian newspapers. The paper showed that marijuana consumption amongst teenagers would grow if the drug was legally available, but that their use could be controlled by tax revenues.

Prof. Dr. Ernst-Ludwig von Thadden, President of the University of Mannheim, congratulated Michelle Sovinsky on her award: “We are very proud that yet another scientist from our university has received this prestigious ERC grant. Over the past six years the Department of Economics in Mannheim has received four ERC grants. The awards confirm the excellent reputation in the field of economics that the University of Mannheim enjoys internationally.”

**About the award winner**
Michelle Sovinsky was appointed professor at the University of Mannheim in 2015, following research stays in Australia, the Netherlands and Italy. Between 2009 and 2015 she worked as associate professor in Switzerland. She is the author of a number of publications in renowned science journals such as *American Economic Review, International Economic Review* and *Econometrica*.

**About the ERC Consolidator Grants**
The ERC Consolidator Grants are awarded to outstanding researchers of any nationality and age, with at least seven and up to 12 years of experience after their PhD, and a scientific track record showing great promise. Maximum individual funding is two million Euros per grant awarded for up to five years. This year, 314 top researchers in Europe received a total of 605 million Euros.


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