

# Parental Altruism toward Habit-Forming Children

Lin Zhang\*, and Shinsuke Ikeda\*\*

## Abstract

We propose a parental altruism model where the child is habit-forming but is unaware of it. The parent, who is aware of the child's habit, gives less income transfer than what the child expects. We examine the welfare implication of the parental income transfer. When the parent is poor, less income transfer makes the child worse off. However, when the parent is rich and sufficiently altruistic toward the child, less transfer makes the child better off. We also find that when the strength of the child's habit-formation is exogenously increased, the child's rate of time preference increases and the parent exhibits tough love by giving less transfer.

**Keywords:** Habit Formation; Parental Altruism, Time Preference, Tough Love

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\* Graduate School of Economics, Osaka University, 1-7 Machikaneyama, Toyonaka, Osaka 560-0043, Japan. Tel.: 81-6-6850-6111; Fax: 81-6-6850-5205.  
Email: <kge017zl@mail2.econ.osaka-u.ac.jp>.

\*\* The Institute of Social and Economic Research, Osaka University, 6-1 Mihogaoka, Ibaraki, Osaka 567-0047, Japan. Tel.: 81-6-6879-8568, Fax: 81-6-6879-8583.  
E-mail: <iked@iser.osaka-u.ac.jp>.