

Endogenous Time Preference, Educational Investment, and Parental Altruism

Lin Zhang[†]

ABSTRACT

This paper develops a model of parental investment in her child's education that incorporates parental altruism with time-preference formation and human capital formation, and assumes decreasing marginal impatience. It explains behavior which is consistent with empirical evidence but cannot be predicted by previous studies: A parent who invests more in her child's educational as her income decreases. The necessary and sufficient condition is provided for this behavior. This model also predicts that the child can consume less as income increases and that the parent can sacrifice her own consumption to increase educational investment. Logarithmic utility functions can exhibit these properties.

Keywords: Time Preference Formation; Human Capital Formation; Parental Altruism; Educational Investment.

JEL Classification: D9; I2.

[†] Graduate School of Economics, Osaka University, 1-7, Machikaneyama, Toyonaka, Osaka 560-0043, Japan

Tel.: +81 06 6850 6111; fax: +81 06 6850 5205

Email address: kge017zl@mail2.econ.osaka-u.ac.jp