

Housing inheritance, financial assistance, and a reciprocal interdependence

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Abstract

When adult children expect that their parents will bequeath residential property to them, they may demonstrate their appreciation by providing financial supports. This paper theoretically and empirically examines this possibility. Our theory applies a simple noncooperative game framework with a Stackelberg equilibrium that can examine a reciprocal interdependence between propensity of housing inheritance and financial assistance when formal care affects decision making. We use data from Japanese households to test this interaction. Considering both censoring of financial transfers and specification of inheritance propensity, which is controlled by information on formal care, our empirical results suggest that the propensity to inherit parental house has significantly positive impact on the amount of the transfer from children to their parents. An implicit annuity contract in a form of intra-family reverse mortgage appears to exist in Japanese societies.

Keywords: intergenerational transmission; bequest motives; implicit annuity contracts; housing; Japan

JEL classification: D11, D12, J14, R21

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