

# Economic and Intergenerational Decision-Making in Families

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## **ACADEMIC THESIS**

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## Abstract

### **Parental Decision-Making and Educational Investments: Experimental Evidence from Tanzania**

This paper shows that differences in decision power between spouses have significant implications for educational investments in children. I conducted a lab-in-the-field experiment with parents to test whether mothers avoid bargaining with their more powerful spouses, thereby sacrificing the ability to finance expensive educational inputs through income pooling. Mothers and fathers were asked to allocate money between a cash payout and a voucher for school materials. Additionally, each parent could make the decision individually or jointly with the spouse. The experiment randomly varied how much couples could gain by deciding jointly on the allocation. Parents strategically react to higher levels of this treatment by cooperating more, but mothers in particular continue to avoid bargaining and sacrifice on average 5.8% of voucher value by investing inefficiently. I show that these results are driven by mothers with low empowerment, who believe their spouses disagree with their preferred allocations. After the redemption of the voucher for school materials children of noncooperative parents achieve significantly lower test scores five months after the experiment, implying a negative intergenerational externality of parents' decisions. The findings of the paper also shed light on the emergence of alternative strategies of mothers to finance educational goods, such as informal saving groups or hiding of income.

**Keywords:** intra-household decision-making, gender, educational investments, income pooling

**JEL classification:** D13, D14, O12, O15

### **Behavioral Responses and Design of Bequest Taxation**

This paper studies the optimal design of an inter-generational wealth tax, commonly represented by either inheritance or estate taxation. Depending on the tax design, old-age individuals can react with a number of responses, ranging from adjustments of wealth accumulation and inter-vivos gifts to changes in the distribution of inheritances among heirs. We leverage a unique and appropriate setup of Swedish inheritance taxation and rich administrative data. To understand individual responses to alternative tax schemes, we estimate a comprehensive structural model of wealth accumulation and bequest decisions in old age. We find that comparable inheritance and estate taxes result in sizable, but similar distortions to wealth accumulation and bequest distributions. By limiting strategic avoidance to wealth adjustments, estate taxation outperforms inheritance taxes in terms of tax revenues. Our model enables policymakers to design an intergenerational wealth tax that balances distortions, progressiveness, tax revenue and tax incidence according to the chosen social welfare functions.

**Keywords:** bequest taxation, bequest motives, lifecycle model, tax avoidance

**JEL classification:** H24, H26, D14, D15, D64

### **Distributional Preferences in Adolescent Peer Networks**

This paper studies distributional ("social") preferences in adolescent peer networks. Using incentivized choices between allocations for themselves and a passive agent, children are classified into efficiency-loving, inequality-loving, inequality-averse, and spiteful types. We find children of similar types to be more likely to exhibit friendship ties, and friends' preferences are aligned in 32% of cases. Further, conditional on being friends, types are significantly correlated. These relationships among peers are almost completely driven by inequality-loving and spiteful types. Further analyses suggest that preference peer networks are mostly driven by selection into the network and, to a smaller degree, by transmission. The role of peer networks in explaining distributional preferences goes beyond composition. A low rank in academic performance and a central position within the network relate positively to spiteful behavior, suggesting a differential relevance of these types of social hierarchies. Empirical evidence for preference peer networks is important to explain heterogeneity in distributional preferences and the selection into friendship and professional networks, as well as into political initiatives later in life.

**Keywords:** social preferences, peer networks, children, distributional preferences

**JEL classification:** D63, D64, Z13

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