

Parent–Children “Deals”: Inter Vivos Transfers and Living Proximity

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Abstract

We investigate the role of the family as an informal market: parents enjoy their children’s living proximity, which increases the probability of intra-family care, and reward them with a wealth transfer. Our (Cox-type) model delivers interesting predictions on the relation between proximity and transfers: higher transfers make children live closer to their parents and liquidity constraints on children strengthen the effect. We test the model’s predictions on - up to now unexploited - Italian data, taken from the Bank of Italy’s Survey on Household Income and Wealth. Our results are in line with the theoretical predictions of the model: higher transfers induce children to live nearer to their parents and liquidity-constrained households live closer to their parents than unconstrained ones.

Keywords: life cycle, imperfect credit markets, informal insurance, living proximity

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