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“Externality and Strategic Interaction in the Location Choice of Siblings under Altruism toward Parents”

Abstract

When siblings wish for the well-being of their elderly parents, the cost of caregiving and long-term commitment creates a free-rider problem among siblings. We estimate a sequential game to investigate externality and strategic interaction among adult siblings regarding their location choice relative to their elderly parents. Using the US Health and Retirement Survey, we find a positive externality and strategic interaction. The first-mover advantage of eldest children and the prisoner's dilemma are likely to exist but their magnitudes are negligible compared with inefficiency in joint utility. Inefficiency is large in a family with an educated, widowed mother and with educated siblings who are younger (relative to parents), married, and similar to each other. Had siblings fully internalized externality and jointly maximized utility sum in 2010, 17% more parents with multiple children would have had a child nearby. Public policies that reduce children's private costs may enhance social welfare.

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Paper:

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2003996