

The Role of Bequests in Shaping Wealth Inequality: Evidence from Danish Wealth Records

— Online Appendix —

By SIMON H. BOSERUP, WOJCIECH KOPCZUK, AND CLAUS T. KREINER

January 2016

A Matching Quality of Reweighting Approach

Figure A.1 below shows average parental wealth in the treatment group and the control group before reweighting (left panel) and after reweighting (right panel). We reweight the control group to match, for each child cohort, the percentile distribution of parental wealth in the treatment group. Percentile ranks of the parents are calculated within each child cohort, based on average parental wealth in the years 2003–2009, where parental wealth is the sum of wealth of the living biological parents in each year. Without reweighting the two graphs are reasonably parallel, but parental wealth is significantly lower in the treatment group. This is as expected as it is well-known that timing of death is correlated with socio-economic status. After reweighting the control group, the two curves are nearly identical.

Because of the correlation between parental wealth and time of parental death and intergenerational dependency in wealth, it is natural to expect that child wealth of the treatment group on average is below the level of the control group. Figure A.2 shows the difference between the average wealth of the treatment group and the control group without reweighting of the control group. The graph is very similar to Figure 1 in the main text with the exception, as expected, of a permanently lower level of wealth of the treatment group relative to the control group.

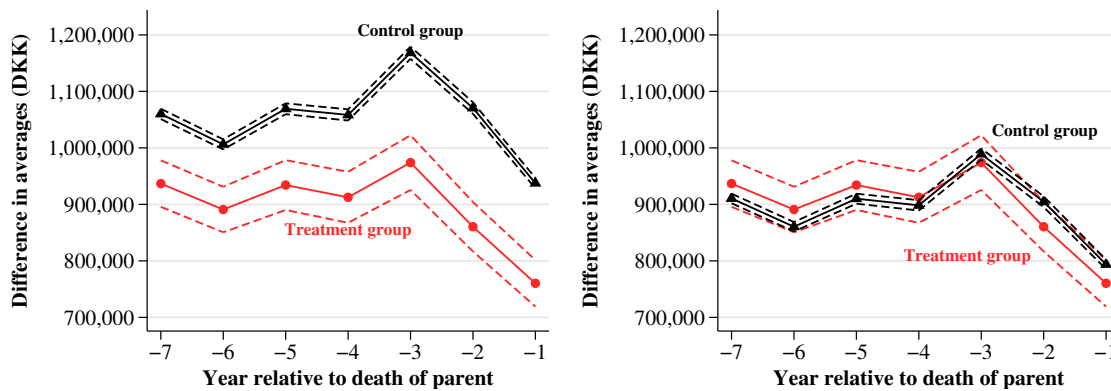


FIGURE A.1: WEALTH OF PARENTS UNWEIGHTED (LEFT PANEL) AND WEIGHTED (RIGHT PANEL)

Note: The two figures display average wealth of T-group parents and C-group parents. The left panel is unweighted averages, while the right panel shows the result when reweighting the control group as explained in the text. All amounts in 2010 DKK. \$1=DKK 5.6. Distributions censored at 1st and 99th percentiles.

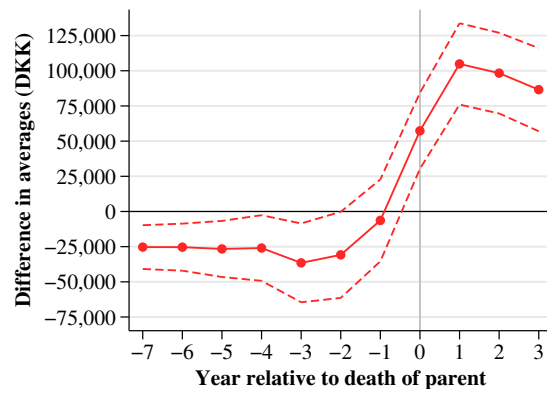


FIGURE A.2: DIFFERENCE IN AVERAGE WEALTH OF TREATMENT GROUP CHILDREN AND CONTROL GROUP CHILDREN (UNWEIGHTED)

Note: The graph displays the unweighted average wealth of the treatment group relative to the control group. The graph may be compared to Figure 1, where the control group is reweighted as explained in the text. All amounts in 2010 DKK. \$1=DKK 5.6. Distributions censored at 1st and 99th percentiles.

B Longer Term Effects of Bequest

In the main text, we look at the cohorts who are 45–50 years old in 2010, where the parent dies in the treatment group, but not in the control group. We can only study the effect three years out and, by construction, over time parents in the control group are beginning to die as well. Below, we reconstruct Figures 1–3 in the paper for another sample. We follow the same cohorts but analyze instead the consequences of parental death in 2007, when children are 42–47 years old, and compare the individuals to a control group, where the parent is alive in 2013. This gives 4,926 individuals in the treatment group and 136,309 individuals in the control group. The advantage of this comparison is that we can study a longer term effect. The disadvantage is that the difference in the timing of parental deaths in the treatment and control groups is now at least seven years, whereas previously we allowed parents in the control group to die the year after, implying that the groups are possibly less similar now.

Figure B.1 shows that the short run impact on average wealth is DKK 125,000, which is the same as in Figure 1. Six years after death of the parent the effect is slightly above DKK 75,000, which is more than 60 percent of the effect on impact.

The effect on the variance of the wealth distribution is displayed in Figure B.2. Bequests increase the variance by close to 40 percent, which is a little larger than in Figure 2, and the effect is still 35 percent six years after.

The top 1% wealth shares of the treatment group and the control group are displayed in Figure B.3. The graphs are more noisy than those in Figure 3. However, it is still clear that the wealth share decreases relative to the control group after death of the parent. The difference between the two curves is approximately 20 percentage points prior to death of the parent and 10 percentage points after death of the parent, implying that the top 1% wealth share of the treatment group declines by around 10 percentage points, which is slightly higher than the effects obtained when studying death of parents in 2010. Finally, note that the curves are completely parallel after death of the parent. Thus, the effect seems more or less constant over the six year period after receiving bequest.

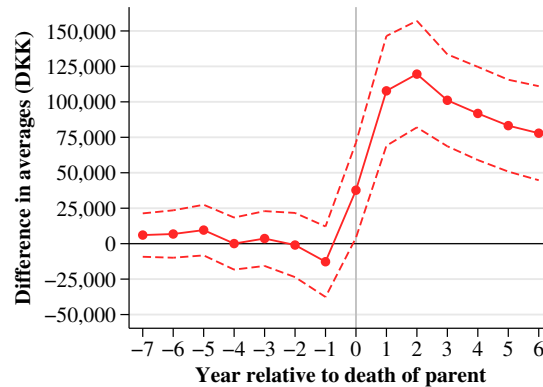


FIGURE B.1: EFFECT OF DEATH OF THE PARENT ON WEALTH OF CHILDREN (PARENTAL DEATH IN 2007)

Note: The graph shows the difference in the average wealth of children of treatment group and control group with the control group reweighted to match, for each child cohort, the percentile distribution of parental wealth in the treatment group. Percentile ranks of parents are calculated within each child cohort based on average wealth in the seven years before death. Parental wealth is the sum of wealth of the living biological parents in each year. Amounts in 2010 DKK, \$1 = DKK5.6. Distributions censored at 1st and 99th percentiles. Dashed lines illustrate 95 percent confidence intervals based on standard errors clustered by parents (who may have more than one child).

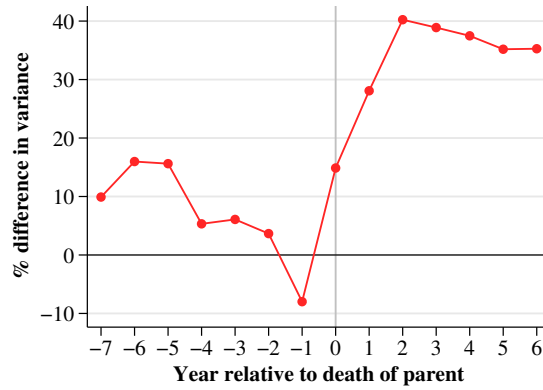


FIGURE B.2: EFFECTS OF BEQUEST ON THE VARIANCE OF WEALTH (PARENTAL DEATH IN 2007)

Note: The graph shows the percentage difference in variance of treatment group relative to control group. The wealth distributions of the two groups are censored at the 1st and 99th percentiles. The control group is weighted as described in Figure B.1.

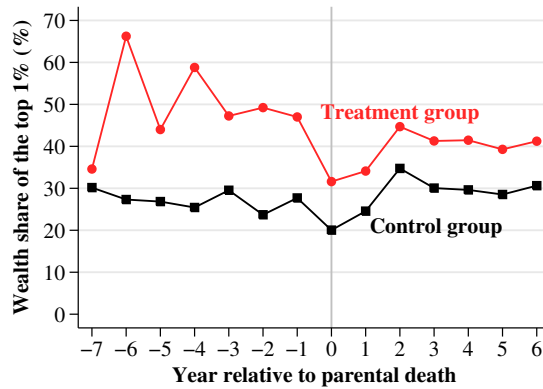


FIGURE B.3: EFFECT OF BEQUEST ON TOP 1% SHARE OF WEALTH (PARENTAL DEATH IN 2007)

Note: The graph shows the top 1% share in the treatment and control groups. The control group is weighted as described in Figure B.1.