



**Bureau  
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(BETA)**  
UMR 7522

# Documents de travail

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Document de Travail n° 2017 – 11

*Mars 2017*

**Bureau d'Économie  
Théorique et Appliquée**  
BETA - UMR 7522 du CNRS

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# The love for children hypothesis and the multiplicity of fertility rates

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March 31, 2017

## Abstract

As illustrated by some French departments, how can we explain the existence of equilibria with different fertility and growth rates in economies with the same fundamentals, preferences, technologies and initial conditions? To answer this question we develop an endogenous growth model with altruism and love for children. We show that independently from the type of altruism, a multiplicity of equilibria might emerge if the degree of love for children is high enough. We refer to this condition as the *love for children hypothesis*. Then, the fertility rate is determined by expectations on the future growth rate and the dynamics are not path-dependent. Our model is able to reproduce different fertility behaviours in a context of completed demographic transition independently from fundamentals, preferences, technologies and initial conditions.

JEL Classification: J13, O41, D11

Key Words: Fertility, Love for Children, Expectations, Endogenous Growth, Balanced Growth Path.

## 1 Introduction

Many countries have almost surely completed their demographic transition. For instance, in France, the total fertility rate of all women has reached its *plateau*. Data from Insee<sup>1</sup> show that, from 2006 to nowadays, the total fertility rate of French women is on average stable at the replacement level of two children per

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<sup>1</sup>*Institut national de la statistique et des études économiques*, [www.insee.fr](http://www.insee.fr).

woman.<sup>2</sup> Even though nowadays the total fertility rate of French women is on average stable at replacement level, if we focus on small geographical areas, such as regions or departments, very different fertility patterns emerge. The demographic literature has already highlighted the existence of these geographical differences in France dating back to the previous centuries.<sup>3</sup>

If we concentrate on current fertility rates in French departments belonging to the same regional entity we can clearly observe very different fertility patterns, from the convergence of fertility rates to the persistence of fertility differentials. This is, in our opinion, a very interesting phenomenon that deserves to be analysed in details because it cannot be explained with the existence of heterogeneity in cultural fundamentals, religion values, historical heritages or social norms. Indeed, in a context of completed fertility transition without heterogeneity of individuals' preferences, abilities, norms or initial conditions, we would expect a convergence of fertility rates across departments. However, this expectation is not confirmed by the empirical evidence. The case of Alsace is emblematic.<sup>4</sup> This region is composed by two departments, Bas-Rhin and Haut-Rhin, with similar, if not the same, fundamentals and initial conditions. However, we can observe the existence of a constant fertility differential of about 5 – 10% a year over time. We cannot ascribe this phenomenon to heterogeneity of preferences of individuals populating two neighbourhood departments, since their cultural fundamentals are the same. Of course, this fact is not specific to Alsace and can be observed in other adjacent French departments. At the same time, there exists also some French departments, adjacent and belonging to the same region and with the same characteristic of the two departments in Alsace, that do not exhibit any differentials in fertility over time. These stylized facts are more accurately discussed in Section 2.

In any case, these facts at departmental level ask to answer to the following main theoretical questions: how can we explain, on the one hand, the persistence and, on the other hand, the absence of fertility differentials in a context of completed fertility transition in which households' preferences, such as altruism, norms, religious beliefs, technologies and initial conditions are homogeneous? Can an economic model of fertility explain this diversity when is not assumed the heterogeneity of fundamentals?

In the literature, several papers have explained the existence of fertility differentials, because of heterogeneous endowments in human capital and/or skills to work (see for instance Dahan and Tsiddon (1998), de la Croix and Doepke (2003, 2004), Kremer and Chen (1999, 2002)). However, differences in fertility collapse in the absence of heterogeneities across households, as it seems to be the case among the French departments we focus on in Section 2. Other contri-

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<sup>2</sup>The total fertility rate is expressed in per 1000 women (considering women in reproductive ages, i.e. 15-49 years-old.). We only consider the total fertility rate for Metropolitan France.

<sup>3</sup>For instance, in the second half of the XIX century, the total fertility rate of all women was much more higher in the North, North-West and East compared to the South-West, center and South of France. See Desplanques (2011) and Vivier (2014).

<sup>4</sup>Take in mind that we define regions as they were before the law of December 12, 2014, that reduces the number of French metropolitan regions from 22 to 13 from January 1, 2016.

butions interesting for our research questions develop models with endogenous fertility and traps due to a multiplicity of steady states. This multiplicity may be explained by the net return of capital which is no more always decreasing with respect to capital (Palivos (1995), Cai (2002)) or the difference between the returns of investing in capital and having children (Becker *et al.* (1990), Galor and Weil (1996)). In these approaches, one converges to a steady state with high or low fertility depending on the initial condition on capital. The dynamics are typically path-dependent. This means that with the same initial conditions, as in the French departments we consider, one converges to the same equilibrium and fertility rate. Therefore, these different types of analysis cannot explain the diversity of configurations we highlight among French departments, such as in the region of Alsace. In addition, both the existence and the absence of fertility gaps across adjacent departments cannot be explained by such models in which individuals are homogeneous in terms of preferences, as we believe it is the case for individuals living in neighbourhood departments within the same regional entity.

For these reasons, we look at another explanation based on the multiplicity of self-fulfilling equilibria. Depending on whether agents living in two adjacent departments coordinate their expectations on the same or on different equilibria, the model might reproduce the absence or the persistence of disparities in fertility rates. In other words, we develop a model which is able to replicate both empirical evidences without considering heterogeneity of preferences or different initial socio-economic conditions. We obtain these conclusions considering an endogenous growth model with fertility, love for children and either paternalistic or dynastic altruism. We recall that in the first case, utility depends on the amount of bequest for each child, while in the second one, utility of parents depends on utility of children. To have a model with growth as tractable as possible, we consider an  $Ak$  technology. We show that whatever the type of altruism, there exist two balanced growth paths under similar conditions. Therefore, our results do not depend on the type of altruism considered, which highlights the robustness of the findings.

Above all, our analysis emphasizes the crucial role of love for children, formalized by a utility that depends on the number of children *per se*. As we show, the multiplicity of self-fulfilling equilibria emerges if love for children is significant, referred as the *love for children hypothesis*, and the marginal utility of having children does not strongly depend on the number of children, meaning that households are quite indifferent between two (stationary) fertility rates. In this case, the fertility rate is determined by expectations on the future growth rate. Indeed, depending on their expectations, agents coordinate on a high fertility rate or rather a lower one.<sup>5</sup> This may explain the diversity of configu-

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<sup>5</sup>A similar result is found by Chabé-Ferret and Melindi-Ghidi (2012). They show that ethnic minorities are often found to exhibit in some circumstances higher fertility levels and lower educational investments than the majority group because parents' fertility decisions are affected by the uncertainty concerning the future economic status of their offspring. However, this concept is related to the concept of minority status and the size of each groups with respect to the majority.

rations we observe among adjacent French departments belonging to the same region. If we associate our economy to a French department, households of two departments sharing the same fundamentals can coordinate their expectations on the same or on different equilibria. Finally, on the theoretical ground, our result is new for two reasons. First, it does not depend on a form of heterogeneity among agents (preferences, skills, initial conditions). Second, our economy can jump on one equilibrium or the other one because, in contrast to what we usually find in growth models with fertility, dynamics are not path-dependent. Because of love for children, the fertility rate is determined by expectations on the future growth rate.

Our analysis is also related to the *value of children* theory formulated in the sociological literature by the pioneering work of Hoffmann and Hoffmann (1973). These authors develop a sociological approach based on the idea that the combination of socio-economic and normative factors is able to influence fertility decisions. The main assumption of their sociological model is that the value that parents give to their children determines the intra-family relationships and the fertility behaviours. Empirical studies have tested if the value of children hypothesis is able to explain fertility differentials within and between countries. The results indicate that this hypothesis is quite predictive of fertility intentions (Mares and Mozy (2005), Nauck (2006), Nauck and Klaus (2007)). To our knowledge, no economic contributions have tried to give an explicit theoretical formulation of this theory. We show that this can be done extending basic growth model of rational fertility choice to the idea that the marginal utility of having children does not strongly decrease with the number of children. In this case, expectations on the value of children could explain the appearance of fertility differentials between households and geographical areas characterized by the same fundamentals. However, in an economic setting with altruism and love for children, it seems to us more appropriate to refer to this theoretical approach as *love for children hypothesis*, that is, a welfare that strongly weights utility for the number of children.

This paper is organized as follows. In the next section, we present some stylized facts on fertility trends over the last forty years using data on French departments. We show that different patterns from convergence of fertility rates to persistent fertility differentials emerge across adjacent departments within the same regional entity. In Section 3, we develop our model with endogenous growth, fertility, love for children and either paternalistic or dynastic altruism that exhibits a multiplicity of equilibria. We discuss and interpret our results in Section 4. We conclude in Section 5, while technical proofs are relegated to an Appendix.

## 2 Stylized facts from France: 1975-2014

While the demographic literature has already analysed the recent demographic trends in France and the evidence for which fertility differentials exist across

French regional areas,<sup>6</sup> we provide some stylized facts that aim to explain how fertility differentials have evolved over-time across departments, that are adjacent and belongs to the same region. Indeed, it is fairly certain that adjacent areas are characterized by similar economic development, initial conditions, social norms, traditions and religious beliefs. Keeping in mind this claim, we study the fertility trend of some French departments over the last 40 years using the dataset provided by the Insee.

## 2.1 The Insee dataset and Philcarto

The Insee provides demographic, economic and social data for France.<sup>7</sup> Data are provided at national, regional, departmental and municipal levels. In our analysis, we concentrate on data at department level. In particular, we use time series for the total fertility rate of women of all ages (15-49 years-old) between 1975 and 2014. Following the Insee's definition: *total period fertility measures the number of children a woman would have in the course of her life if the fertility rates observed at each age in the year considered remain unchanged*. We merge data on total fertility rate with shape files provided by Philcarto to produce geographical maps to illustrate total fertility rate differentials at departmental level in France.<sup>8</sup> To describe geographical borders at regional level, we use shape files defining regional borders before the law of December 12, 2014, that reduces the number of France metropolitan regions from 22 to 13 from January 1, 2016. We do not consider TOM, i.e. overseas territories of France.

Moreover, to provide some recent statistics, we look to the total fertility rate in 2013 and data for 2012 for median income of households with children, net wage of women, activity rate of women, average age of mother at birth, population density and the main city in the department (with its population size) to explain. We consider 2012 data to keep into account the time frame between birth and duration of pregnancy.<sup>9</sup>

## 2.2 The geographical fertility differentials in French departments

We analyse the geographical pattern of total fertility rates of all women across French departments during the last 40 years. Figures 1, 2 and 3 map the geographical distribution of the total fertility rate of all women in French departments in three years of reference: 1975, 1994, 2014, respectively.<sup>10</sup> The three maps clearly show that fertility rates at departmental level have fallen down almost every where from 1975 to 1994, while it is has grown in all areas from

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<sup>6</sup>See for instance Toulemon et al. (2008), Prioux (2005), Lesthaeghe and Neels (2002).

<sup>7</sup>Data are available at [www.insee.fr](http://www.insee.fr).

<sup>8</sup>The program and the shape files are publicly available at <http://philcarto.free.fr>.

<sup>9</sup>Using 2013 data for median income data and/or women wage, or on median income of households with children at department level would not alter the statistics we will provide.

<sup>10</sup>Geographical borders of the departments are drawn in yellow while those of the regions in black.

1995 until nowadays. More precisely, the total fertility rate fluctuated from a minimum of 1.49 to a maximum of 2.4 in 1974. After that period of baby-boom, the total fertility rate has decreased almost everywhere. Indeed, Figure 2 indicates that its value at department level was between 1.28 and 1.94 in 1994. Part of this period corresponds to a second demographic transition. From 1994 to nowadays, fertility increased again, bringing the average fertility in France at 1.99 children per women in 2014. As we can observe in Figure 3, the variation at department level has increased to a minimum of 1.46 to a maximum of 2.5 in 2014. These relative fertility variations clearly indicate that the dynamic evolution of fertility rates at department levels does not follow the same pattern everywhere. Indeed, looking at the maps, it is quite clear that the strength of temporal changes has been different at both regional and departmental levels, generating a new picture of fertility across geographical areas in France. In particular, the fertility behaviour was much more homogeneous at regional level in 1975. Nowadays, this behaviour seems much more heterogeneous compared to the past. Therefore, these maps clearly indicates that the fertility variations at department level have not followed a common trend.

[Figure 1 here]

[Figure 2 here]

[Figure 3 here]

The coefficients of spatial autocorrelation of Moran and Geary at departmental level confirm this claim.<sup>11</sup> Both coefficients measure the correlation among values of a single variable strictly attributable to their relatively close locational positions on a two-dimensional surface (Griffith (1987)). It is clear from the values reported in the tables in Figures 1, 2 and 3, that the spatial autocorrelation across French departments has strongly decreased over the last two decades generating a more heterogeneous picture of fertility.

It should also be noted that these variations in spatial autocorrelation of fertility rates across departments have not concerned all the geographical areas of France. Indeed, in some areas, we can observe a persistence of fertility behaviours over time. This is an interesting phenomenon that indicates the existence of heterogeneity in fertility behaviours at department level. For instance, if we look at the North-East of France in the three maps, the fertility pattern of the departments composing the regions of Alsace and Lorraine has not changed over time. This particular fact can be found in other geographical areas of France and deserves to be analysed in details, since it could generate persistent fertility differentials and, therefore, enduring geographical disparities over time.

To study this particular phenomenon, we use time-series data for French departments. As expected, we find that important persistent fertility differentials at departmental level might arise in different geographical areas of France.

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<sup>11</sup>While the first coefficient is a measure of global spatial autocorrelation, the second measures local spatial autocorrelation. Negative values indicate negative spatial autocorrelation while positive values indicate positive one.

Figure 4 clearly shows this statement.<sup>12</sup> In particular, it depicts the dynamic evolution of the total fertility rate of all women over the period 1975-2014 for four couples of two adjacent departments belonging to a particular region for which this persistence of fertility behaviours is pronounced. We choose adjacent departments to guarantee the convergence in terms of cultural characteristics and initial conditions.<sup>13</sup>

[Figure 4 here]

To find an economic explanation of this phenomenon for recent years, we look at the summary statistics of the main socio-economic variables as well as to the level of urban development, such as the presence of big cities and the population density, that characterize the recent fertility rates at department level. To this end, we collect Insee data for variables that are usually used in the economic empirical literature to explain total fertility rates of women (Tfr): median income of households with children (Median), net wage of women (Wage), activity rate of women (Act), age of mother at birth (Age), population density (Dens) and the main city in the department (with its population size).<sup>14</sup> In the data reported in Table 1, we note that all departments that show lower fertility rates in 2013 are those in which we observe higher income levels (median income and/or wage), age of mother at birth and population density, a proxy of the urban development of the department. Not surprisingly, in the low fertility departments is also settled a city with larger population size than the major city settled in high fertility departments. These results are in line with the idea for which socio-economic characteristics and urban development might have an important impact in explaining fertility differentials we observe in the data at department level.

[Table 1 here]

In line with the empirical economic literature, the level of income plays a crucial role in explaining differentials in total fertility rates. Indeed, socio-economic variables might have an important impact on fertility behaviours. More precisely, a negative relationship between income and fertility is widely recognized in the economic literature. Table 1 confirms the existence of such a trade-off also in our sub-sample of 8 French departments in which the disparity of fertility rates is highly persistent over time. Therefore, the economic explanation behind the current fertility rates of these departments seems to be a good candidate to explain differentials in fertility behaviours across adjacent French departments.

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<sup>12</sup>For this figure and Table 1 we consider two adjacent departments in the following regions: Alsace (Bas-Rhin and Haut-Rhin), Lorraine (Meurthe-et-Moselle and Meuse), Bourgogne (Côte-d'Or and Yonne), PACA (Bouches-du-Rhône and Vaucluse)

<sup>13</sup>Moreover, we choose departments in different regions to cover all the territory of France. For conciseness, we only consider 4 metropolitan regions of France but this phenomenon can be found in other geographical areas.

<sup>14</sup>We consider the year 2013 for our dependent variable, i.e. the total fertility rate of all women and the year 2012 for the other variables.



However, looking at other adjacent departments we can clearly observe that persistent differences in fertility rates at department level is not the only possible empirical outcome observable in French data. We also find patterns characterized by convergence of fertility rates across adjacent departments and over time. To support this claim, we present in Figure 5 four cases of adjacent departments belonging to the same regional entity in which we do not report any persistence of fertility differentials over time.<sup>15</sup> The fertility behaviour of women in each department tends to be much more homogeneous with respect to the case of persistent fertility gap. Indeed, in all four cases in Figure 5, fertility rates at department level fluctuate around very similar values and cross each other several times.

[Figure 5 here]

Table 2 shows the summary statistics for these departments for the year 2013 in four pairs of adjacent departments in which we do not observe persistence of differences in fertility rates. To question the role of urban development in explaining fertility differentials, it is important to note that the disparity of urban development proxies, such as population density and the presence of a large city in the department, is still significant for these geographical areas. This is especially true for the regions of Rhône-Alpes or Languedoc-Roussillon in which the cities of Lyon and Perpignan are respectively settled. Therefore, an important hint that we can derive from these summary statistics is that we cannot ascribe the fertility gaps we observe in Figure 4 to urban development. Indeed, we do not observe any persistent fertility differentials over time for instance between the department of Rhône-Alpes, and the department of Ain, where urban development is significantly less important. However, also in this scenario, the relationship between income and fertility is in line with the conclusion of the standard economic theory. Indeed, except for the median income of households with children in the departments of Corrèze and Creuse, both economic variables and fertility rates tend to converge to very similar values.

[Table 2 here]

We should recognize that the negative correlation between socio-economic variables and fertility rates helps to explain the fertility patterns at geographical level. To give robustness to this claim, in Appendix A we present a linear regression over the 96 departments in metropolitan France in order to check if some residuals are not explained by the usual socio-economic variables employed in empirical analysis. Even though data confirm the existence of the standard quantity/quality trade-off between fertility and income, from a theoretical perspective, a standard fertility model with homogeneous preferences, fundamentals, technologies and initial conditions cannot explain the diversity of configurations we highlight among adjacent departments because it would

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<sup>15</sup>For this figure and Table 2, we consider two adjacent departments in the following regions: Rhône-Alpes (Ain and Rhône), Languedoc-Roussillon (Aude and Pyrénées-Orientales), Limousin (Corrèze et Creuse), Poitou-Charentes (Charente and Charente-Maritime).

necessarily predicts the convergence of fertility rates. For this reason we propose a new theoretical model based on the role of expectations on the value of children that might help to understand the variability of fertility behaviours across French departments. Put differently, the main objective of this paper is to develop an economic model of fertility that is able to reproduce theoretically the empirical evidence we observe in the data at departmental level in a context of completed fertility transition such as France. To this end, in the next section, we will develop an economic model with endogenous growth, fertility, love for children and either paternalistic or dynastic altruism that provides an explanation of the different stylized facts presented in this section, based on the multiplicity of self-fulfilling equilibria.

### 3 The models with love for children and altruism

We present two models with love for children, i.e. parents derive utility for the number of children they have, and altruism, respectively paternalistic one and dynastic one. We show that whatever the model chosen, a multiplicity of equilibria occur under similar conditions: the degree of love for children should be high enough, i.e. what we call the love for children hypothesis is satisfied, and the marginal utility of having children should not strongly depend on the number of children. These models may explain the diversity of experiences met by adjacent French departments. Depending on whether agents of two such departments coordinate their expectations on the same equilibrium or not, one explains non persistent or persistent fertility differentials even in presence of homogeneity of fundamentals and initial conditions.

Time is discrete ( $t = 0, 1, \dots$ ) and there are two types of agents: firms and altruistic consumers. We start by presenting the production sector.

#### 3.1 Production

A continuum of unit size of identical firms produces the final good using capital  $K_t$  and labor  $L_t$ . In order to introduce in a simple way endogenous growth, a learning by doing process results in knowledge accumulation. Congestion effects are taken into account assuming that the externality of knowledge depends on the capital intensity (Bosi and Seegmuller (2012), Frankel (1962), Ljungqvist and Sargent (2004), Chapter 14). Therefore, the quantity of final good produced by each firm is given by  $Y_t = F(K_t, \bar{k}_t L_t)$ , where  $\bar{k}_t \equiv \bar{K}_t / \bar{L}_t$  denotes the average capital-labor ratio. The technology  $F(K_t, \bar{k}_t L_t)$  has the usual neo-classical properties, i.e. is a strictly increasing and concave production function satisfying the Inada conditions, and is homogeneous of degree one with respect to its two arguments.

Each firm considers knowledge spillovers as given and maximizes its profits with respect to capital and labor under perfect competition. Since we note  $r_t$

the real interest rate and  $w_t$  the real wage, profit maximization gives:

$$r_t = F_1(K_t, \bar{k}_t L_t) \quad (1)$$

$$w_t = F_2(K_t, \bar{k}_t L_t) \bar{k}_t \quad (2)$$

We now present the model with paternalistic altruism.

## 3.2 Paternalistic altruism

### 3.2.1 Households

The economy is populated by individuals whose finite lifespan is divided up into two periods: youth (inactive period) and adult age (working period). Despite consumption, households have preferences for fertility with a weight  $\epsilon > 0$ , and altruism, with a weight  $\gamma > 0$ . Paternalistic altruism means that households take care about the amount of bequest, capital in our framework, they leave to their children (see Michel *et al.* (2006)). The size of the generation of adults born in  $t - 1$  is  $N_t$ , growing at an endogenous factor  $n_t \in (0; +\infty)$ . Therefore, the population size evolves according to  $N_{t+1} = n_t N_t$ .

When adult, an agent born at time  $t - 1$  derives utility from consumption,  $c_t$ , having children  $n_t$  and bequest per child through capital holding  $\kappa_{t+1}$ :

$$\ln c_t + \epsilon \frac{n_t^{1-\mu}}{1-\mu} + \gamma \ln \kappa_{t+1} \quad (3)$$

with  $\mu > 0$  and  $\mu \neq 1$ . In the limit case where  $\mu = 1$ , the utility becomes logarithmic, i.e.  $\ln c_t + \epsilon \ln n_t + \gamma \ln \kappa_{t+1}$ , as in a lot of existing contributions (Galor and Weil (1996), de la Croix and Doepke (2003)). We generalize this specification introducing a specification of the utility that allows us to discuss the results according to the concavity degree with respect to the fertility rate. Note that a quite similar specification was considered in the seminal contribution by Razin and Ben-Zion (1975).

Each young individual induces a rearing time cost  $b > 0$  to her parents. Each household supplies  $1 - bn_t$  units of labour to firms, earning the competitive wage rate  $w_t$ . Moreover, she receives income from capital bequests  $\kappa_t$  coming from her parents remunerated by firms at the rate  $r_t$ . This income is shared between family consumption and capital bequests to children. Therefore, the budget constraint of an adult born in  $t - 1$  writes as follows:

$$c_t + n_t(\kappa_{t+1} + bw_t) = R_t \kappa_t + w_t \quad (4)$$

with  $R_t \equiv 1 - \delta + r_t$  the gross return of capital and  $\delta \in (0, 1)$  the depreciation rate of capital.

An adult household determines her optimal choice maximizing the utility (3) taking into account the budget constraint (4). One get:

$$n_t = \left[ \frac{\kappa_{t+1} \epsilon}{\gamma(\kappa_{t+1} + bw_t)} \right]^{\frac{1}{\mu-1}} \quad (5)$$

$$c_t = \frac{\kappa_t R_t + w_t(1 - bn_t)}{1 + \gamma} \quad (6)$$

**Lemma 1** *There exists  $\epsilon_1 > 0$  such that the second order conditions are satisfied for the utility maximisation (3) under the constraint (4) if  $\epsilon > \epsilon_1$ .*

**Proof.** See Appendix B.1. ■

Lemma 1 states that if the weight associated to love for children, i.e.  $\epsilon$  is sufficiently high, household's utility is maximised whatever the value of  $\mu$ . The second order conditions are in particular satisfied for  $\mu < 1$ , a configuration in which we will show that a multiplicity of equilibria exists. We refer to this analytical condition as the *love for children hypothesis*.<sup>16</sup>

### 3.2.2 Equilibrium and balanced growth path (BGP): uniqueness versus multiplicity

Because of a continuum of unit size of identical firms, individual and average capital labor ratios coincide at the equilibrium, that is:  $\bar{k}_t = k_t = K_t/L_t$ . Defining  $s \equiv F_1(1, 1)/F(1, 1) \in (0, 1)$  the capital share in total production and  $A \equiv F(1, 1) > 0$  the total factor productivity, (1) and (2) rewrite:

$$r_t = sA \quad (7)$$

$$w_t = (1 - s)Ak_t \quad (8)$$

Equilibrium on the labor market is satisfied if  $L_t = N_t(1 - bn_t)$ . Equilibrium on the capital market requires  $k_t = K_t/L_t = \kappa_t N_t / [(1 - bn_t)N_t] = \kappa_t / (1 - bn_t)$ .

Define  $g_t \equiv k_t/k_{t-1}$  the growth factor of the capital-labor ratio. We can rewrite (5) and (6) as follows:

$$n_t = \left[ \frac{\gamma}{\epsilon} \left( 1 + \frac{(1 - s)Ab}{(1 - bn_{t+1})g_{t+1}} \right) \right]^{\frac{1}{1-\mu}} \quad (9)$$

$$c_t = \frac{k_t[(1 - \delta + sA)(1 - bn_t) + (1 - s)A(1 - bn_t)]}{1 + \gamma} \quad (10)$$

with  $0 < n_t < 1/b$ . Substituting (7), (8) and (10) into (4), we obtain:

$$n_t \left( \frac{1 + \gamma}{\gamma} g_{t+1}(1 - bn_{t+1}) + (1 - s)Ab \right) = (1 - \delta + sA)(1 - bn_t) + (1 - s)A \quad (11)$$

Equation (9) rewrites:

$$g_{t+1} = \frac{(1 - s)Ab}{(1 - bn_{t+1})(n_t^{1-\mu} \epsilon / \gamma - 1)} \quad (12)$$

<sup>16</sup>Note that the denomination "love" for children can already be met in the literature. See the survey by Nerlove and Raut (1997).

Substituting this equation in (11), we get:

$$G(n_t) = H(n_t) \quad (13)$$

with:

$$G(n) \equiv (1-s)Abn(\epsilon n^{1-\mu} + 1) \quad (14)$$

$$H(n) \equiv [(1-\delta + sA)(1-bn) + (1-s)A](\epsilon n^{1-\mu} - \gamma) \quad (15)$$

Equation (13) defines the solutions  $n_t \in (0, 1/b)$ . Note that this equation becomes a static one. Given  $(n_t)$ , we deduce the value of  $(g_{t+1})$  using (12). We show that:

**Proposition 1** *Let*

$$\underline{\epsilon} \equiv (2b)^{1-\mu}[1-s + \gamma(2-s)] \quad (16)$$

*Assuming  $\epsilon > \epsilon_1$ , the following holds:*

- (i) *For  $\mu = 1$ , there is a unique equilibrium  $0 < n_0 < 1/b$  if and only if  $\epsilon > \gamma$ ;*
- (ii) *For  $\mu > 1$ , there is a unique equilibrium  $0 < n_0 < 1/b$ ;*
- (iii) *For  $0 < \mu < 1$ , there exist two equilibria  $n_1$  and  $n_2$ , such that  $(\gamma/\epsilon)^{\frac{1}{1-\mu}} < n_1 < 1/(2b) < n_2 < 1/b$ , if  $\epsilon \geq \underline{\epsilon}$ .*

**Proof.** See Appendix B.2. ■

A BGP is an equilibrium with  $g_t = g_{t+1} = g$ , defined by:

$$g = \frac{(1-s)Ab}{(1-bn)(n^{1-\mu}\epsilon/\gamma - 1)} \quad (17)$$

with  $n = n_0$  for  $\mu \geq 1$  and  $n = n_1$  or  $n = n_2$  for  $\mu \in (0, 1)$ . This last case is of special interest because it entails a form of global indeterminacy. The agents coordinate their expectations either on the equilibrium  $n_1$ , or on  $n_2$ . This means that, with the same fundamentals, such as preferences and socio-economic initial conditions, an economy can either be on the equilibrium  $n_1$ , or on  $n_2$ . Different fertility rates may be obtained depending on agents' expectations. If our economy corresponds to a French department, this explains the possible existence and persistence of fertility differentials between two adjacent departments with the same cultural and fundamental characteristics.

Two main ingredients are important to obtain this multiplicity. First, the love for children hypothesis should be satisfied so that  $\epsilon$  should be large enough to satisfy the second order conditions whatever the value of  $\mu$ . Second,  $\mu$  should be low enough, which means that the marginal utility of having children ( $\epsilon n^{-\mu}$ ) weakly depends on the number of children. Then, households are quite indifferent between two equilibria with different fertility rates. They can coordinate on different values of the fertility rate.

We show now that this result of multiplicity is not specific to the assumption of paternalistic altruism.

### 3.3 Dynastic altruism

Instead of considering paternalistic altruism, we introduce dynastic altruism. Otherwise, the model is similar to the previous one. We show that multiplicities occur under similar conditions. Therefore, this model will also be able to explain fertility differentials due to agents' self-fulfilling expectations.

#### 3.3.1 Households

Population size is  $N_t$  at period  $t$ . Agents derive utility from consumption, the number of children and a form of altruism. The main difference with the previous section concerns the type of altruism, which is now dynastic. As in Razin and Ben-Zion (1975), agents care about the utility of their children. Considering that the degree of altruism is now measured by  $\beta \in (0, 1)$ , the utility of an adult consumer at period  $t$  is given by:

$$U_t = \ln c_t + \epsilon \frac{n_t^{1-\mu}}{1-\mu} + \beta U_{t+1}$$

Accordingly, the utility of a dynasty writes:

$$\sum_{t=0}^{+\infty} \beta^t \left( \ln c_t + \epsilon \frac{n_t^{1-\mu}}{1-\mu} \right) \quad (18)$$

with  $\epsilon > 0$ ,  $\mu > 0$  and  $\mu \neq 1$ . In the limit case where  $\mu = 1$ , the utility writes  $\sum_{t=0}^{+\infty} \beta^t (\ln c_t + \epsilon \ln n_t)$ . As it is explained in the previous model, our specification of the utility is a generalization of the log-linear specification to preferences that allow to discuss the results according to the concavity degree with respect to the fertility rate.

The budget constraints faced at each period is similar to the previous model:

$$c_t + n_t(\kappa_{t+1} + bw_t) = R_t \kappa_t + w_t \quad (19)$$

We determine the optimal behaviour of households maximizing the utility (18) under the constraints (19). We get the following conditions:

$$c_t = n_t^\mu \frac{bw_t + \kappa_{t+1}}{\epsilon} \quad (20)$$

$$\frac{n_t}{c_t} = \beta \frac{R_{t+1}}{c_{t+1}} \quad (21)$$

$$\lim_{t \rightarrow +\infty} \beta^t \frac{n_t}{c_t} \kappa_{t+1} = 0 \quad (22)$$

**Lemma 2** *There exists  $\epsilon_2 > 0$  such that the second order conditions are satisfied for the utility maximisation (18) under the constraint (19) if  $\epsilon > \epsilon_2$ .*

**Proof.** See Appendix B.3. ■

Lemma 2 indicates that household's maximisation holds whatever the value of  $\mu$  under a similar condition than in the model with paternalistic altruism (see Lemma 1), i.e. a high enough weight of love for children  $\epsilon$ . This means that again, the so-called *love for children hypothesis* must be satisfied.

### 3.3.2 Equilibrium and BGP: uniqueness versus multiplicity

Substituting (20) in (19) and (21), we get:

$$\frac{n_t^{1-\mu}}{bw_t + \kappa_{t+1}} = \beta \frac{R_{t+1}}{(bw_{t+1} + \kappa_{t+2})n_{t+1}^\mu} \quad (23)$$

$$n_t^\mu \frac{w_t b + \kappa_{t+1}}{\epsilon} + n_t(\kappa_{t+1} + bw_t) = R_t \kappa_t + w_t \quad (24)$$

As in the previous model, equilibria on capital and labor markets mean that  $k_t = K_t/L_t = \kappa_t/(1 - \beta n_t)$ . Then, using (7) and (8), equations (23) and (24) become:

$$\frac{n_t^{1-\mu} g_{t+1}}{b(1-s)A + (1 - bn_{t+1})g_{t+1}} = \beta \frac{1 - \delta + sA}{[b(1-s)A + (1 - bn_{t+2})g_{t+2}]n_{t+1}^\mu} \quad (25)$$

$$g_{t+1}(1 - bn_{t+1}) + b(1-s)A = \epsilon \frac{(1 - \delta + sA)(1 - bn_t) + (1-s)A}{n_t^\mu + \epsilon n_t} \quad (26)$$

where  $g_t \equiv k_t/k_{t-1}$  is still the growth factor of the capital-labor ratio. A BGP is a steady state of the system (25)-(26), i.e. a solution  $(n, g)$  solving:

$$g = \frac{\beta(1 - \delta + sA)}{n} \quad (27)$$

$$\left(\frac{n^\mu}{\epsilon} + n\right) [g(1 - bn) + b(1-s)A] = (1 - \delta + sA)(1 - bn) + (1-s)A \quad (28)$$

Substituting (27) into (28), a BGP is a value of  $n$  satisfying  $I(n) = J(n)$ , with:

$$I(n) \equiv (1 + \epsilon n^{1-\mu})[(1 - bn)\beta(1 - \delta + sA) + nb(1-s)A] \quad (29)$$

$$J(n) \equiv [(1 - \delta + sA)(1 - bn) + (1-s)A]\epsilon n^{1-\mu} \quad (30)$$

On a BGP,  $\kappa_{t+1}/\kappa_t = k_{t+1}/k_t = g$  because  $n$  is constant. Using the budget constraint, we also have  $c_t/\kappa_t + ng = 1 - \delta + A$ . This implies that  $c_{t+1}/c_t = \kappa_{t+1}/\kappa_t = g$ . Therefore, the transversality condition (22) is always satisfied on a BGP.

We examine now the existence and the number of BGP:

**Proposition 2** *Let*

$$\hat{\epsilon} \equiv \frac{\beta(1 - \delta + sA)}{1 - \delta + A - \beta(1 - \delta + sA)}$$

$$\tilde{\epsilon} \equiv \frac{(2b)^{1-\mu}[(1 - \delta + sA)\beta + (1-s)A]}{(1 - \delta)(1 - \beta) + A(1 - \beta s)}$$

*Assuming  $\epsilon > \epsilon_2$ , the following holds.*

- (i) *For  $\mu = 1$ , there is a unique BGP  $(n_0, g_0)$ , with  $0 < n_0 < 1/b$ , if and only if  $\epsilon > \hat{\epsilon}$ ;*

- (ii) For  $\mu > 1$ , there is a unique BGP  $(n_0, g_0)$ , with  $0 < n_0 < 1/b$ ;
- (iii) For  $0 < \mu < 1$ , there exist two BGP,  $(n_1, g_1)$  and  $(n_2, g_2)$ , such that  $0 < n_1 < 1/(2b) < n_2 < 1/b$  and  $g_1 > g_2$ , if  $\epsilon > \tilde{\epsilon}$ .

**Proof.** See Appendix B.4. ■

Before discussing this result on the uniqueness versus the multiplicity of BGP, we analyze the dynamics of the model. To analyze the stability of the BGP in the different configurations highlighted in Proposition 2, let us rewrite the dynamic system (25)-(26) as follows. Using (26), we substitute  $g_{t+1}$  in equation (25) to get:

$$\frac{\tilde{I}(n_{t+1})}{(1 - \delta + sA)(1 - bn_{t+1}) + (1 - s)A} = \frac{\tilde{J}(n_t)}{(1 - \delta + sA)(1 - bn_t) + (1 - s)A} \quad (31)$$

with:

$$\tilde{I}(n_{t+1}) \equiv \beta(1 - \delta + sA)(1 - bn_{t+1})(\epsilon n_{t+1}^{1-\mu} + 1) \quad (32)$$

$$\tilde{J}(n_t) \equiv \epsilon n_t^{1-\mu}(1 - \delta + A)(1 - bn_t) - (1 - s)Abn_t \quad (33)$$

This means that the dynamics are driven by a one-dimensional dynamic equation that gives the sequence of the non-predetermined variable  $n_t$ . Of course, given  $(n_t)$ , we are able to deduce the sequence of growth factor  $(g_t)$  using equation (26). Equation (31) allows us to show:

**Proposition 3** *Assuming  $\epsilon > \epsilon_2$ , the following holds.*

- (i) For  $\mu = 1$  and  $\epsilon > \hat{\epsilon}$ , or  $\mu > 1$ , the unique BGP  $(n_0, g_0)$  is globally determinate;
- (ii) For  $0 < \mu < 1$  and  $\epsilon > \tilde{\epsilon}$ , the two BGP  $(n_1, g_1)$  and  $(n_2, g_2)$  are locally determinate.

**Proof.** See Appendix B.5. ■

Propositions 2 and 3 show that when  $\mu \geq 1$ , there is a unique BGP which is globally determinate (see also Figure 6). This is the only equilibrium and one immediately jumps on this BGP. Taking the fundamentals of the economy as given, rational expectations imply that  $n_t = n_0$ . Therefore, this configuration is not able to explain the diversity of situations among French departments, i.e. both the existence and the absence of a fertility differential when we compare some of them that are adjacent and belong to the same region.

[Figure 6 here]

When  $0 < \mu < 1$ , there are two BGP and each one is locally determinate (see also Figure 7). The coexistence of the two equilibria  $n_1$  and  $n_2$  means that there is a form of global indeterminacy associated to the multiplicity of BGP.



The agents may coordinate their expectations on one of the two BGP.<sup>17</sup> This is interesting for our aim: as in the case of paternalistic altruism, this model can explain that economies with the same fundamentals may be characterized by persistent heterogeneous fertility rates. This may explain the diversity of situations experienced by some adjacent French departments that can either be characterized by the same fertility rates or by persistent fertility differentials.

[Figure 7 here]

As in the model with paternalistic altruism, two key conditions are required to get this result: the love for children hypothesis ( $\epsilon$  large enough) and a marginal utility of having children that weakly depends on the fertility rate ( $\mu$  smaller than one).<sup>18</sup> Therefore, the utility to have children  $\epsilon n_t^{1-\mu}/(1-\mu)$  plays the key role to have the multiplicity equilibria and fertility rates. This conclusion is reinforced if we refer to the paper by Bosi and Seegmuller (2012). Except that they also introduce heterogeneous agents and exogenous mortality rates, the main difference with our model with dynastic altruism lies in the fact that households are of the Barro and Becker (1989) type and there is no love for children as in our framework. In contrast to us, they always get a unique BGP.

We may also wonder whether indeterminacy is possible in this dynastic framework, equivalent to an optimal growth model. Usually, models characterized by optimal growth have no multiplicities of equilibria. Notable exceptions are the models where the price of an asset enters the utility function. It is, for instance, the case in models with real money balances in the utility (Matsuyama (1990)) or with spirit of capitalism (Clain-Chamosset-Yvrard (2016), Kamihigashi (2008)). In our framework with dynastic altruism, we argue that we have a closely related feature. Indeed,  $n_t$ , which is an argument of the utility function and is endogenous, is also the price of capital.

## 4 Discussion of the theoretical results

We have shown that whatever the type of altruism, paternalistic or dynastic, there is a multiplicity of BGP and of associated fertility rates. Therefore, as soon as there is love for children, this result seems to be quite robust. In both cases, it requires the same conditions. First, the love for children hypothesis must be satisfied, i.e.  $\epsilon$  should be sufficiently high. Second, the elasticity of the marginal

<sup>17</sup>Even if we are not especially concerned with dynamic paths with oscillations and fluctuations, we can note that the model may feature complex dynamics. By direct inspection of Figure 7, we see that there is a threshold value  $\hat{n}$  that separates the dynamics in two regions. For either  $0 < n_t < \hat{n}$  or  $\hat{n} < n_t < 1/b$ , we observe that there is a form of global indeterminacy, because there exist values of  $n_t$  for which it corresponds two values of  $n_{t+1}$ . In addition, it is a priori possible to switch from the region with  $0 < n_t < \hat{n}$  to the one with  $\hat{n} < n_t < 1/b$ , and vice-versa.

<sup>18</sup>Note that, despite the fact that we consider endogenous growth, our model with dynastic altruism is close to the one developed in the seminal contribution by Razin and Ben-Zion (1975). They have no multiplicities because they restrict their attention to the configuration where  $\mu > 1$ .

utility of having children with respect to the number of children measured in absolute value,  $\mu$ , needs to be low enough. This means that the marginal utility for children does not strongly depend on the number of children and households are quite indifferent between two (stationary) fertility rates.

To explain this multiplicity, we highlight whether expectations may be self-fulfilling. Then, because of expectations, two economies with the same fundamentals, such as preferences and initial conditions, that may be associated to two adjacent French departments according to our stylized facts, may reach the same BGP or rather BGP with different fertility rates. To underline now the basic mechanism that may explain this phenomenon, let us rewrite the main arbitrage conditions for the two models. In the case of paternalistic altruism (PA), the main trade-offs write (see (B.1) and (B.2) in Appendix B.1):

$$\frac{n_t}{c_t} = \frac{\gamma}{\kappa_{t+1}} \quad (34)$$

$$\epsilon n_t^{1-\mu} = \gamma \frac{\kappa_{t+1} + bw_t}{\kappa_{t+1}} \quad (35)$$

In the case of dynastic altruism (DA), the arbitrage conditions are (see (B.6) and (B.7) in Appendix B.3):

$$\frac{n_t}{c_t} = \beta \frac{R}{c_{t+1}} \quad (36)$$

$$\epsilon n_t^{1-\mu} = \frac{\beta R(\kappa_{t+1} + bw_t)}{c_{t+1}} \quad (37)$$

where  $R = 1 - \delta + sA$ .

In both models, the first equation, (34) and (36) respectively, determines the choice between current consumption and the bequest transmitted to the next generation. It means that the cost of bequest in terms of the consumption good,  $n_t$ , is equal to the marginal utility of bequest over the marginal utility of current consumption.

We recall that on a BGP,  $k_t = \kappa_t/(1 - bn)$ , which means that  $\kappa_t/\kappa_{t-1} = k_t/k_{t-1} = g$ . Using the budget constraint faced by the household, we also have  $c_t + n\kappa_{t+1} = (1 - \delta + A)\kappa_t$ , which is equivalent to  $c_t/\kappa_t = 1 - \delta + A - ng$ . This implies that  $c_t/c_{t-1} = \kappa_t/\kappa_{t-1} = g$ . Hence, in a neighborhood of a BGP, equation (36) also writes:

$$n_t = \beta \frac{R}{g_{t+1}} \quad (38)$$

and equation (34) gives an expression for  $n_t$  proportional to the right-hand side of (38). Because of the decreasing marginal utilities, the endogenous cost of the capital bequeathed,  $n_t$ , is therefore inversely related to the expected growth factor.

Let us focus on the other arbitrage equation, (35) in the model with PA and (37) in the model with DA. The left-hand side of both these equations is similar and corresponds to the cost of capital  $n_t$  times the marginal utility of having

children  $\epsilon n_t^{-\mu}$ . The right-hand side is therefore equal to the price of having an adding child  $\kappa_{t+1} + bw_t$  times the marginal utility associated to an increase of bequest in terms of capital, which is equal to  $\gamma/\kappa_{t+1}$  in the model with PA and  $\beta R/c_{t+1}$  in the model with DA.

On the one hand, we see by direct inspection of the right-hand side of (35) and (37) that, following an increase in the expected growth factor, the increase of the price of a child does not cross out the decrease of the marginal utility associated to altruism. On the other hand, if  $\mu$  is lower than one, we observe that, following a decrease of  $n_t$ , the effect though the price of capital dominates the opposite one that goes through the marginal utility of having children.

Hence, this arbitrage between the number of children and the amount of capital bequeathed to each child shows us that if households expect an increase of the future growth rate, they choose to have a lower number of children. This is compatible with the other arbitrage between current consumption and bequest (see equation (38)). Indeed, in both models with PA or DA, a lower fertility, which also corresponds to a lower cost of investment, leads to a larger capital investment, which boosts growth. This explains that expectations are self-fulfilling when  $\mu$  is lower than one.

Of course, if  $\mu$  is larger or equal to one, this cannot happen. Any increase of the expected growth factor implies either a raise or no effect on the number of children (see (35) and (37)), which is at odds with the arbitrage between current consumption and bequest, as described by equation (38). In such a case, expectations may not be self-fulfilled.

Three main ingredients play a crucial role to explain the multiplicity. First, the love for children hypothesis must be satisfied. Second, the marginal utility of having children should not strongly decrease with the number of children. Then, households have a sort of indifference between the two BGP since the marginal utility gain associated to love for children does not highly depend on the fertility rate. Third, we learn from one of the arbitrage conditions (see equations (35) and (37)), that the marginal utility of having children should depend on the expected value of the marginal utility associated to bequest. This means that love for children directly depends on expectations, i.e. we have an expected value of children under the love for children hypothesis.

Finally, when  $\mu < 1$ , equations (34) and (35) in the model with PA and equations (36) and (37) in the model with DA describe two negative relationships between the fertility rate  $n$  and the growth rate  $g$ . This means that the two existing BGP,  $(n_1, g_1)$  and  $(n_2, g_2)$ , satisfy  $n_1 < n_2$  and  $g_1 > g_2$ . The BGP with a lower fertility rate experiences a larger growth. This is in line with the theoretical and empirical literature highlighting a negative relationship between fertility and income variables when the demographic transition is completed (Galor (2005)).

## 5 Conclusion

In this paper we provided an economic interpretation of the *value of children* hypothesis developed by the literature in sociology during the 70's. Following this approach, we claimed that expectations on the value of children could explain the appearance of fertility differentials within geographical areas characterized by the same fundamentals. Since we employed an economic setting with altruism and love for children, we referred to this new theoretical approach as the *love for children hypothesis*, that is, a household's welfare that strongly weights the utility for the number of children.

From a theoretical perspective, we developed two growth models with love for children and altruism. We showed that independently from the type of altruism chosen, i.e. paternalistic or dynastic, a multiplicity of equilibria might occur if the degree of love for children is high enough. With respect to the previous economic literature, our model is the first able to explain simultaneously the possibility of different configurations of fertility patterns without assuming any form of heterogeneity in preferences and/or technology. More precisely, our theoretical conclusions do not depend on heterogeneity in utilities or initial conditions. Because of love for children and endogenous growth, the fertility rate is determined by expectations on the future growth rate and the dynamics are not path-dependent.

This theoretical finding explains important empirical facts. Indeed, despite the fact that France has completed its demographic transition, fertility differentials seem to persist over time in some areas. If one can claim that adjacent departments within the same regional entity have the same fundamentals, technologies, social norms, religious beliefs, to our knowledge, our model is able to predict simultaneously the possibility of persistence and non-persistence of fertility differentials over time without assuming some forms of heterogeneity in preferences and/or technology. Even though we recognize the importance of socio-economic factors in explaining fertility behaviours, we also highlight that expectations could complete the overall picture, in the sense that expectations can account for residuals of fertility not explained by socio-economic variables. We believe that this is an important theoretical result that nicely contributes to the economic literature in fertility and growth theory.

## A Regression output and tests

To give robustness to our claim that the correlation between socio-economic variables and fertility rates seems to be a good approximation of reality, we run a linear regression over the 96 departments in metropolitan France.<sup>19</sup> The results of the regression are presented in Table 3. As expected, the sign of the coefficients are in line with the standard results of the economic literature on fertility. For instance, a higher median income of households with children has a significant and negative impact on fertility. The same is true for the following variables: age of mother at birth and population density. Conversely, the variables activity rate of women, marriage rate, population size and immigrant share positively impact the fertility rate.

[Table 3 here]

To verify that our model is a good representation of reality, we have to check how well it fits the data and the behaviour of the residuals. Figure 8 shows that the predicted values are very close to the observed fertility rates at departmental level. Moreover, Figure 9 highlights that residuals are homoskedastic. Heteroskedasticity is also excluded by the Breusch-Pagan test ( $prob > chi2 = 0.8351$ ).

[Figure 8 here]

[Figure 9 here]

We should also note that all test are valid if residuals are normally distributed. The Shapiro-Wilk test for normality ( $prob > z = 0.71019$ ) tells us that residuals are normally distributed in our linear model. To check the model specification, we present in Table 4 the results of the *linktests*. Since the p-values are not significant, our model seems correctly specified. Finally, we have to check that our independent variables are not perfectly multicollinear. Table 5 shows that the variance inflation factor (VIF) does not present problems.<sup>20</sup>

[Table 4 here]

[Table 5 here]

Our linear model based on standard socio-economic variables seems a good approximation of the observed data. However, if we look at the Anova table in Table 3, we can observe that the residual sum of squares is larger than the regression (model) sum of squares. Since the the residual sum of squares is the total amount of variability that cannot be accounted for after the regression, we should emphasize that, even though our model fits well the data, the chosen independent variables of the model are not able to explain an important residual difference in fertility rates. The level of the  $R^2$  in Table 2 supports this claim.

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<sup>19</sup>To control for other socio-economic variables usually used by the empirical literature to explain fertility in, we add to the variables in Tables 1 and 2 the level of education (bac rate), marriage rate (mar rate), total population (pop) and the immigrant share (imm) for year 2012.

<sup>20</sup>A  $1/VIF < 0.10$  or a  $VIF > 10$  indicate problems of multicollinearity.

## B Proofs

### B.1 Proof of Lemma 1

In the model with paternalistic altruism, the objective function maximized by the household can be written:

$$L_{1t} \equiv \ln [R_t \kappa_t + w_t - n_t(\kappa_{t+1} + bw_t)] + \gamma \ln \kappa_{t+1} + \epsilon \frac{n_t^{1-\mu}}{1-\mu}$$

The first order conditions are given by:

$$\frac{\partial L_{1t}}{\partial n_t} = -\frac{\kappa_{t+1} + bw_t}{c_t} + \epsilon n_t^{-\mu} = 0 \quad (\text{B.1})$$

$$\frac{\partial L_{1t}}{\kappa_{t+1}} = -\frac{n_t}{c_t} + \frac{\gamma}{\kappa_{t+1}} = 0 \quad (\text{B.2})$$

with  $c_t = R_t \kappa_t + w_t - n_t(\kappa_{t+1} + bw_t)$ . We easily deduce the following derivatives:

$$\frac{\partial^2 L_{1t}}{\partial n_t^2} = -\frac{(\kappa_{t+1} + bw_t)^2}{c_t^2} - \mu \epsilon n_t^{-\mu-1} < 0 \quad (\text{B.3})$$

$$\frac{\partial^2 L_{1t}}{\kappa_{t+1}^2} = -\frac{n_t^2}{c_t^2} - \frac{\gamma}{\kappa_{t+1}^2} < 0 \quad (\text{B.4})$$

$$\frac{\partial^2 L_{1t}}{\partial \kappa_{t+1} \partial n_t} = -\frac{1}{c_t} - n_t \frac{\kappa_{t+1} + bw_t}{c_t^2} \quad (\text{B.5})$$

The second order conditions are fulfilled if the Hessian  $H_{1t} \equiv \frac{\partial^2 L_{1t}}{\partial n_t^2} \frac{\partial^2 L_{1t}}{\kappa_{t+1}^2} - (\frac{\partial^2 L_{1t}}{\partial \kappa_{t+1} \partial n_t})^2 > 0$ . Using (B.3)-(B.5), we get:

$$H_{1t} = \left[ \frac{(\kappa_{t+1} + bw_t)^2}{c_t^2} + \mu \epsilon n_t^{-\mu-1} \right] \left[ \frac{n_t^2}{c_t^2} + \frac{\gamma}{\kappa_{t+1}^2} \right] - \left[ \frac{1}{c_t} + n_t \frac{\kappa_{t+1} + bw_t}{c_t^2} \right]^2$$

Using (B.1) and (B.2), this equation becomes:

$$H_{1t} = \frac{n_t(\kappa_{t+1} + bw_t)[\mu c_t + n_t(\kappa_{t+1} + bw_t)]}{c_t^4} \frac{1 + \gamma}{\gamma} - \left[ \frac{c_t + n_t(\kappa_{t+1} + bw_t)}{c_t^2} \right]^2$$

For  $\mu \geq 1$ ,  $H_{1t} > 0$  if:

$$\frac{1 + \gamma}{\gamma} n_t(\kappa_{t+1} + bw_t) > c_t + n_t(\kappa_{t+1} + bw_t)$$

which is equivalent to:

$$n_t(\kappa_{t+1} + bw_t) > \gamma c_t$$

Using (B.2), we have  $n_t \kappa_{t+1} = \gamma c_t$ , which means that the second order conditions are satisfied for all  $\mu \geq 1$ .

For  $\mu < 1$ , we have  $H_{1t} > 0$  if:

$$\frac{1 + \gamma}{\gamma} > \left[ \frac{c_t + n_t(\kappa_{t+1} + bw_t)}{n_t(\kappa_{t+1} + bw_t)} \right]^2$$

which is equivalent to:

$$\frac{n_t(\kappa_{t+1} + bw_t)}{c_t} > \frac{1}{\sqrt{1 + 1/\gamma} - 1}$$

Because the utility function satisfies standard Inada conditions,  $n_t$  cannot be zero, but is always strictly positive. This means that there exists  $\tilde{n} > 0$  such that  $n_t > \tilde{n}$ . Using (B.1), we deduce that:

$$n_t \frac{\kappa_{t+1} + bw_t}{c_t} = \epsilon n_t^{1-\mu} > \epsilon \tilde{n}^{1-\mu}$$

Therefore, for  $\epsilon$  sufficiently large, such that:

$$\epsilon > \tilde{n}^{\mu-1} \frac{1}{\sqrt{1 + 1/\gamma} - 1} \equiv \epsilon_1,$$

$H_{1t} > 0$  and the second order conditions are satisfied for  $\mu < 1$ .

## B.2 Proof of Proposition 1

Let us start with the limit case where  $\mu = 1$ . Equations (14) and (15) become:

$$\begin{aligned} G(n) &\equiv (1-s)Abn(\epsilon + 1) \\ H(n) &\equiv [(1-\delta + sA)(1-bn) + (1-s)A](\epsilon - \gamma) \end{aligned}$$

If  $\epsilon > \gamma$ , there is a unique equilibrium given by:

$$n = \frac{(\epsilon - \gamma)(1 - \delta + A)}{(\epsilon - \gamma)b(1 - \delta + sA) + (\epsilon + 1)(1 - s)Ab} \in (0, 1/b)$$

Otherwise, no equilibrium exists.

Let us focus on the case where  $\mu \neq 1$ . Using (14) and (15), we show that:

$$\begin{aligned} G''(n) &= (1-s)Ab(2-\mu)(1-\mu)\epsilon n^{-\mu} \\ H''(n) &= -\mu n^{-\mu-1}(1-\mu)\epsilon(1-\delta+A) - (1-\mu)n^{-\mu}\epsilon b(1-\delta+sA)(2-\mu) \\ H(1/b) &= (1-s)A(\epsilon b^{\mu-1} - \gamma) < G(1/b) = (1-s)A(\epsilon b^{\mu-1} + 1) \end{aligned}$$

We especially deduce that:

$$G''(n) - H''(n) = (1-\mu)(1-\delta+A)\epsilon n^{-\mu-1}[bn(2-\mu) + \mu]$$

This implies that  $G''(n) - H''(n) < 0$  if  $\mu > 1$  and  $G''(n) - H''(n) > 0$  if  $\mu < 1$ .

If  $\mu > 1$ , we have  $G(0) < H(0)$ . Since  $G(1/b) > H(1/b)$  and  $G(n) - H(n)$  is strictly concave, there is one solution to  $G(n) - H(n) = 0$ , which proves (ii) of the proposition.

If  $\mu \in (0, 1)$ ,  $G(n) - H(n)$  is strictly convex and  $H(0) = -\gamma(1 - \delta + A) < 0 = G(0)$ . Since  $H(n) \geq 0$  for all  $n \geq (\gamma/\epsilon)^{\frac{1}{1-\mu}}$ , there exist two solutions  $n_1$  and  $n_2$  that belong to  $((\gamma/\epsilon)^{\frac{1}{1-\mu}}, 1/b)$  to equation (13) if there is a value of  $n \in ((\gamma/\epsilon)^{\frac{1}{1-\mu}}, 1/b)$  such that  $H(n) > G(n)$ . Take  $n = 1/(2b)$  that belongs to this interval under  $\epsilon > \gamma(2b)^{1-\mu}$ .  $G(1/(2b)) < H(1/(2b))$  is equivalent to:

$$A[(2b)^{1-\mu}(1-s+\gamma(2-s))-\epsilon] < (1-\delta)[\epsilon-\gamma(2b)^{1-\mu}]$$

This inequality is satisfied if  $\epsilon \geq \underline{\epsilon}$ . In this case, there exist two solutions  $n_1$  and  $n_2$  to equation (13) such that  $(\gamma/\epsilon)^{\frac{1}{1-\mu}} < n_1 < 1/(2b) < n_2 < 1/b$ , which proves (iii) of the proposition.

### B.3 Proof of Lemma 2

In the model with dynastic altruism, the objective function maximized by the household can be written:

$$L_{2t} \equiv \sum_{t=0}^{+\infty} \beta^t \left[ \ln(R_t \kappa_t + w_t - n_t(\kappa_{t+1} + bw_t)) + \epsilon \frac{n_t^{1-\mu}}{1-\mu} \right]$$

The first order conditions are given by:

$$\frac{\partial L_{2t}}{\partial n_t} = -\frac{\kappa_{t+1} + bw_t}{c_t} + \epsilon n_t^{-\mu} = 0 \quad (\text{B.6})$$

$$\frac{\partial L_{2t}}{\partial \kappa_{t+1}} = -\frac{n_t}{c_t} + \beta \frac{R_{t+1}}{c_{t+1}} = 0 \quad (\text{B.7})$$

with  $c_t = R_t \kappa_t + w_t - n_t(\kappa_{t+1} + bw_t)$ . We easily deduce the following derivatives:

$$\frac{\partial^2 L_{2t}}{\partial n_t^2} = -\frac{(\kappa_{t+1} + bw_t)^2}{c_t^2} - \mu \epsilon n_t^{-\mu-1} < 0 \quad (\text{B.8})$$

$$\frac{\partial^2 L_{2t}}{\partial \kappa_{t+1}^2} = -\frac{n_t^2}{c_t^2} - \beta \frac{R_{t+1}^2}{c_{t+1}^2} < 0 \quad (\text{B.9})$$

$$\frac{\partial^2 L_{2t}}{\partial \kappa_{t+1} \partial n_t} = -\frac{1}{c_t} - n_t \frac{\kappa_{t+1} + bw_t}{c_t^2} \quad (\text{B.10})$$

The second order conditions are fulfilled if the Hessian  $H_{2t} \equiv \frac{\partial^2 L_{2t}}{\partial n_t^2} \frac{\partial^2 L_{2t}}{\partial \kappa_{t+1}^2} - \left(\frac{\partial^2 L_{2t}}{\partial \kappa_{t+1} \partial n_t}\right)^2 > 0$ . Using (B.8)-(B.10), we get:

$$H_{2t} = \left[ \frac{(\kappa_{t+1} + bw_t)^2}{c_t^2} + \mu \epsilon n_t^{-\mu-1} \right] \left[ \frac{n_t^2}{c_t^2} + \beta \frac{R_{t+1}^2}{c_{t+1}^2} \right] - \left[ \frac{1}{c_t} + n_t \frac{\kappa_{t+1} + bw_t}{c_t^2} \right]^2$$



Using (B.6) and (B.7), this equation becomes:

$$H_{2t} = \frac{n_t(\kappa_{t+1} + bw_t)[\mu c_t + n_t(\kappa_{t+1} + bw_t)]}{c_t^4} \frac{1 + \beta}{\beta} - \left[ \frac{c_t + n_t(\kappa_{t+1} + bw_t)}{c_t^2} \right]^2$$

For  $\mu \geq 1$ ,  $H_{2t} > 0$  if:

$$\frac{1 + \beta}{\beta} n_t(\kappa_{t+1} + bw_t) > c_t + n_t(\kappa_{t+1} + bw_t)$$

Using (B.6), this is equivalent to  $\epsilon > \beta n_t^{\mu-1}$ . Since  $n_t < 1/b$ , this inequality is ensured by  $\epsilon > \beta b^{1-\mu} \equiv \widehat{\epsilon}_2$ .

For  $\mu < 1$ , we have  $H_{2t} > 0$  if:

$$\frac{1 + \beta}{\beta} > \left[ \frac{c_t + n_t(\kappa_{t+1} + bw_t)}{n_t(\kappa_{t+1} + bw_t)} \right]^2$$

which is equivalent to:

$$\frac{n_t(\kappa_{t+1} + bw_t)}{c_t} > \frac{1}{\sqrt{1 + 1/\beta} - 1}$$

Because the utility function satisfies standard Inada conditions,  $n_t$  cannot be zero, but is always strictly positive. This means that there exists  $\underline{n} > 0$  such that  $n_t > \underline{n}$ . Using (B.6), we deduce that:

$$n_t \frac{\kappa_{t+1} + bw_t}{c_t} = \epsilon n_t^{1-\mu} > \epsilon \underline{n}^{1-\mu}$$

Therefore, for  $\epsilon$  sufficiently large, such that:

$$\epsilon > \underline{n}^{\mu-1} \frac{1}{\sqrt{1 + 1/\beta} - 1} \equiv \widetilde{\epsilon}_2,$$

$H_{2t} > 0$  and the second order conditions are satisfied for  $\mu < 1$ .

Let us define  $\epsilon_2 \equiv \max\{\widehat{\epsilon}_2, \widetilde{\epsilon}_2\}$ . The second order conditions are satisfied for all  $\mu > 0$  if  $\epsilon > \epsilon_2$ .

## B.4 Proof of Proposition 2

Let us start with the limit case where  $\mu = 1$ . Equations (29) and (30) become:

$$\begin{aligned} I(n) &\equiv (1 + \epsilon)[(1 - bn)\beta(1 - \delta + sA) + nb(1 - s)A] \\ J(n) &= [(1 - \delta + sA)(1 - bn) + (1 - s)A]\epsilon \end{aligned}$$

There is a unique equilibrium given by:

$$n = \frac{1}{b} \frac{\epsilon(1 - \delta + A) - (1 + \epsilon)\beta(1 - \delta + sA)}{(1 + \epsilon)[(1 - s)A - \beta(1 - \delta + sA)] + \epsilon(1 - \delta + sA)} \in (0, 1/b)$$

if and only if  $\epsilon > \hat{\epsilon}$ . Otherwise, no equilibrium exists.

We focus now on the case where  $\mu \neq 1$ . Using (29) and (30), we have  $I(1/b) = (1-s)A(1 + \epsilon b^{\mu-1})$  and  $J(1/b) = (1-s)A\epsilon b^{\mu-1} < I(1/b)$ . Moreover, using (29) and (30), we compute:

$$\begin{aligned} I''(n) &= -\mu(1-\mu)\epsilon n^{-\mu-1}\beta(1-\delta+sA) \\ &\quad + (1-\mu)(2-\mu)\epsilon n^{-\mu}b[(1-s)A - \beta(1-\delta+sA)] \\ J''(n) &= -\mu n^{-\mu-1}(1-\mu)\epsilon(1-\delta+A) - (1-\mu)n^{-\mu}\epsilon b(1-\delta+sA)(2-\mu) \end{aligned}$$

We obtain:

$$I''(n) - J''(n) = (1-\mu)\epsilon n^{-\mu-1}[1-\delta+A - \beta(1-\delta+sA)][\mu + (2-\mu)bn]$$

which shows that  $I''(n) - J''(n) < 0$  if  $\mu > 1$  and  $I''(n) - J''(n) > 0$  if  $\mu < 1$ .

If  $\mu > 1$ , we further have  $I(0) < J(0)$ . Since  $I(1/b) > J(1/b)$  and  $I(n) - J(n)$  is strictly concave, there is a unique solution to the equation  $I(n) - J(n) = 0$ , which proves (ii) of the proposition.

If  $0 < \mu < 1$ ,  $I(0) = \beta(1-\delta+sA) > 0 = J(0)$  and  $I(n) - J(n)$  is strictly convex. Let us consider  $n = 1/(2b)$ . Using (29) and (30), we deduce that  $I(1/(2b)) < J(1/(2b))$  if and only if  $\epsilon > \tilde{\epsilon}$ . Using the continuity of  $I(n)$  and  $J(n)$ , we deduce that there are two solutions  $n_1$  and  $n_2$  solving  $I(n) - J(n) = 0$ , such that  $0 < n_1 < 1/(2b) < n_2 < 1/b$ . Using equation (27), we determine the associated values  $g_1$  and  $g_2$ . This proves (iii) of the proposition.

## B.5 Proof of Proposition 3

Differentiating equation (31), we get:

$$\begin{aligned} &\frac{\tilde{I}'(n_{t+1})[(1-\delta+sA)(1-bn_{t+1}) + (1-s)A] + \tilde{I}(n_{t+1})(1-\delta+sA)b}{[(1-\delta+sA)(1-bn_{t+1}) + (1-s)A]^2} dn_{t+1} \\ &= \frac{\tilde{J}'(n_t)[(1-\delta+sA)(1-bn_t) + (1-s)A] + \tilde{J}(n_t)(1-\delta+sA)b}{[(1-\delta+sA)(1-bn_t) + (1-s)A]^2} dn_t \end{aligned}$$

Using (32) and (33), we obtain  $\hat{I}(n_{t+1})dn_{t+1} = \hat{J}(n_t)dn_t$ , with:

$$\hat{I}(n) \equiv \frac{\beta(1-\delta+sA)\mathcal{A}(n)}{[(1-\delta+sA)(1-bn) + (1-s)A]^2} \quad (\text{B.11})$$

$$\hat{J}(n) \equiv \frac{(1-\delta+A)\mathcal{A}(n)}{[(1-\delta+sA)(1-bn) + (1-s)A]^2} \quad (\text{B.12})$$

$$\mathcal{A}(n) \equiv \frac{(1-\mu)\epsilon n^{-\mu}(1-bn)[(1-\delta+sA)(1-bn) + (1-s)A] - b(1-s)A(\epsilon n^{1-\mu} + 1)}{\quad} \quad (\text{B.13})$$

We first deduce that at each BGP, we have:

$$\frac{dn_{t+1}}{dn_t} = \frac{1-\delta+A}{\beta(1-\delta+sA)} > 1 \quad (\text{B.14})$$

This means that each BGP is locally determinate.

When  $\mu \geq 1$ , we further have  $\hat{I}(n_{t+1}) < 0$  and  $\hat{J}(n_t) < 0$ . This means that  $n_{t+1}$  is a strictly increasing function of  $n_t$  for all  $n_t \in (0, 1/b)$ . Therefore, since the BGP is unique, it is globally determinate (see also Figure 6).

When  $\mu < 1$ , the analysis is different. By direct inspection of equations (B.11)-(B.13), we have  $\hat{I}(0) = \hat{J}(0) = +\infty$  and  $\hat{I}(1/b) = \hat{J}(1/b) < 0$ . Since  $\mathcal{A}(n)$  is strictly decreasing, there is a unique  $\hat{n} \in (0, 1/b)$  such that  $\hat{I}(\hat{n}) = \hat{J}(\hat{n}) = 0$ . In addition, we have  $\hat{J}(n_t) > 0$  ( $\hat{I}(n_{t+1}) > 0$ ) for  $n_t < \hat{n}$  ( $n_{t+1} < \hat{n}$ ) and  $\hat{J}(n_t) < 0$  ( $\hat{I}(n_{t+1}) < 0$ ) for  $n_t > \hat{n}$  ( $n_{t+1} > \hat{n}$ ). We deduce that  $dn_{t+1}/dn_t > 0$  for all  $(n_t, n_{t+1}) \in (0, \hat{n})^2$  and  $(n_t, n_{t+1}) \in (\hat{n}, 1/b)^2$  and  $dn_{t+1}/dn_t < 0$  for all  $(n_t, n_{t+1}) \in (0, \hat{n}) \times (\hat{n}, 1/b)$  and  $(n_t, n_{t+1}) \in (\hat{n}, 1/b) \times (0, \hat{n})$ . Because of these results and inequality (B.14) holds at each BGP, the two BGP are such that  $n_1 < \hat{n} < n_2$ . Each BGP is locally determinate. Using the different ingredients of this proof, we can draw Figure 7. The proposition immediately follows.

Figure 1: TFR of all women in France in 1975

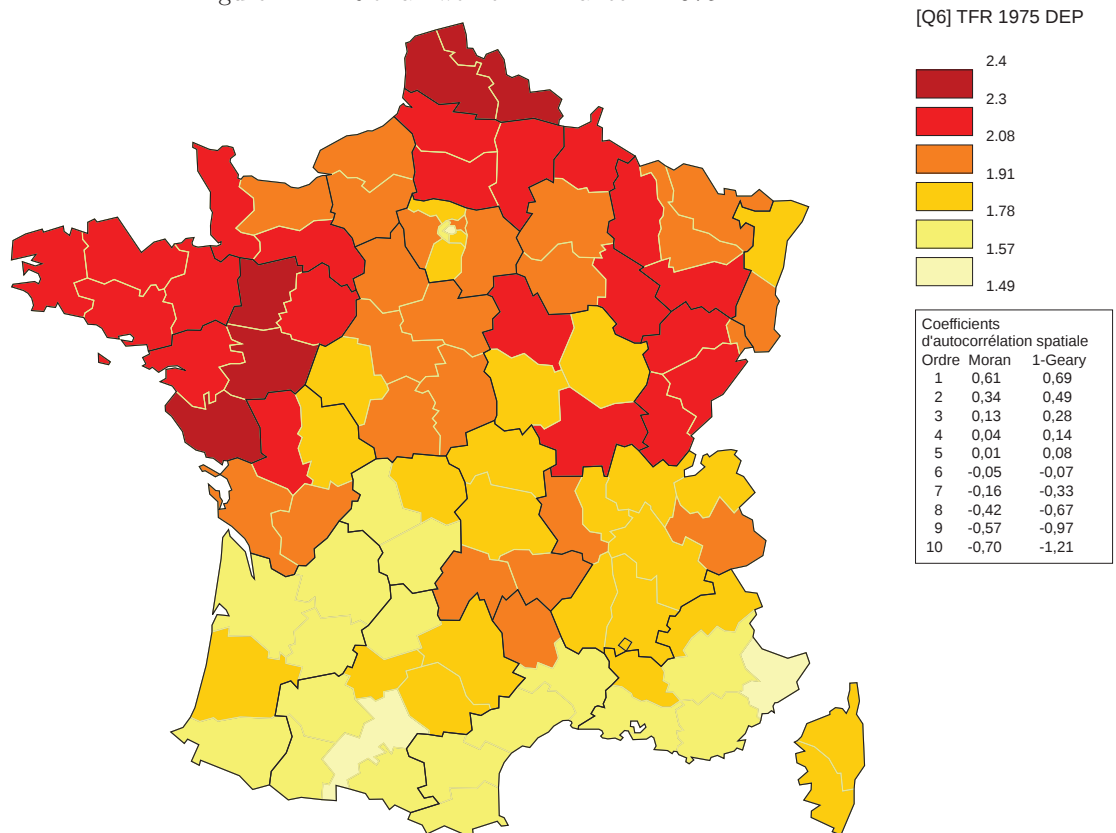


Figure 2: TFR of all women in France in 1994

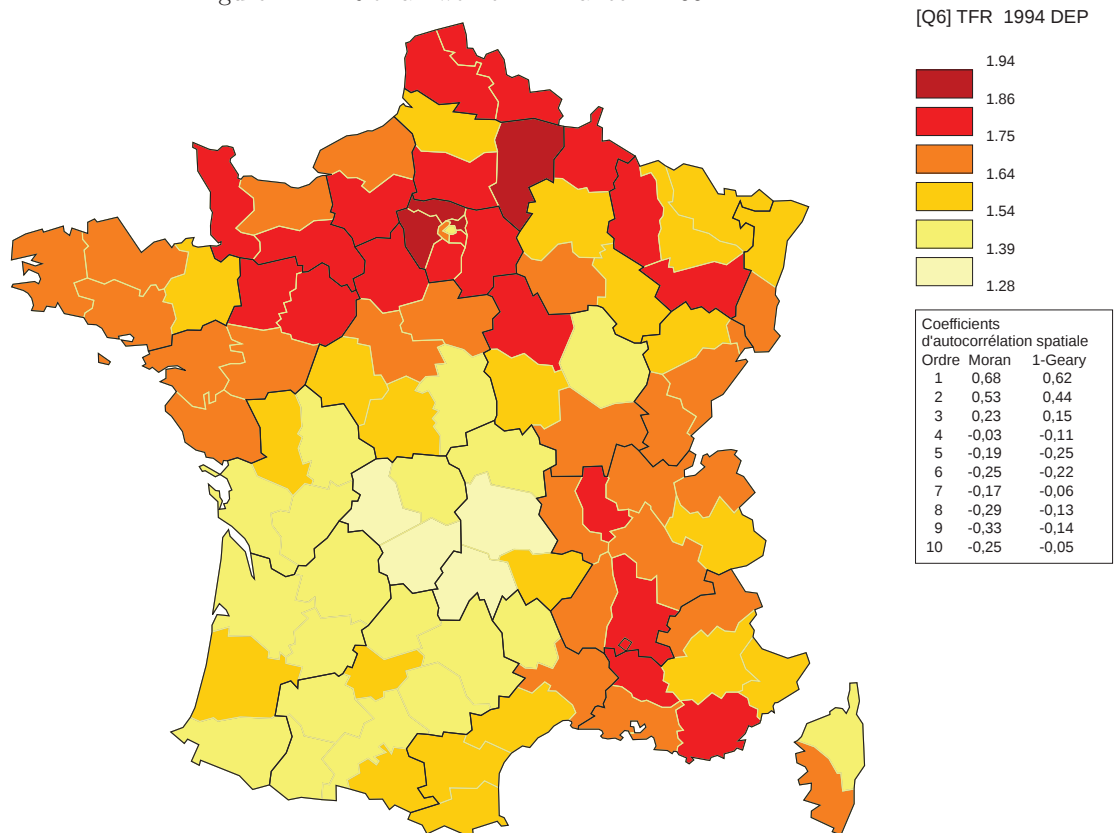


Figure 3: TFR of all women in France in 2014

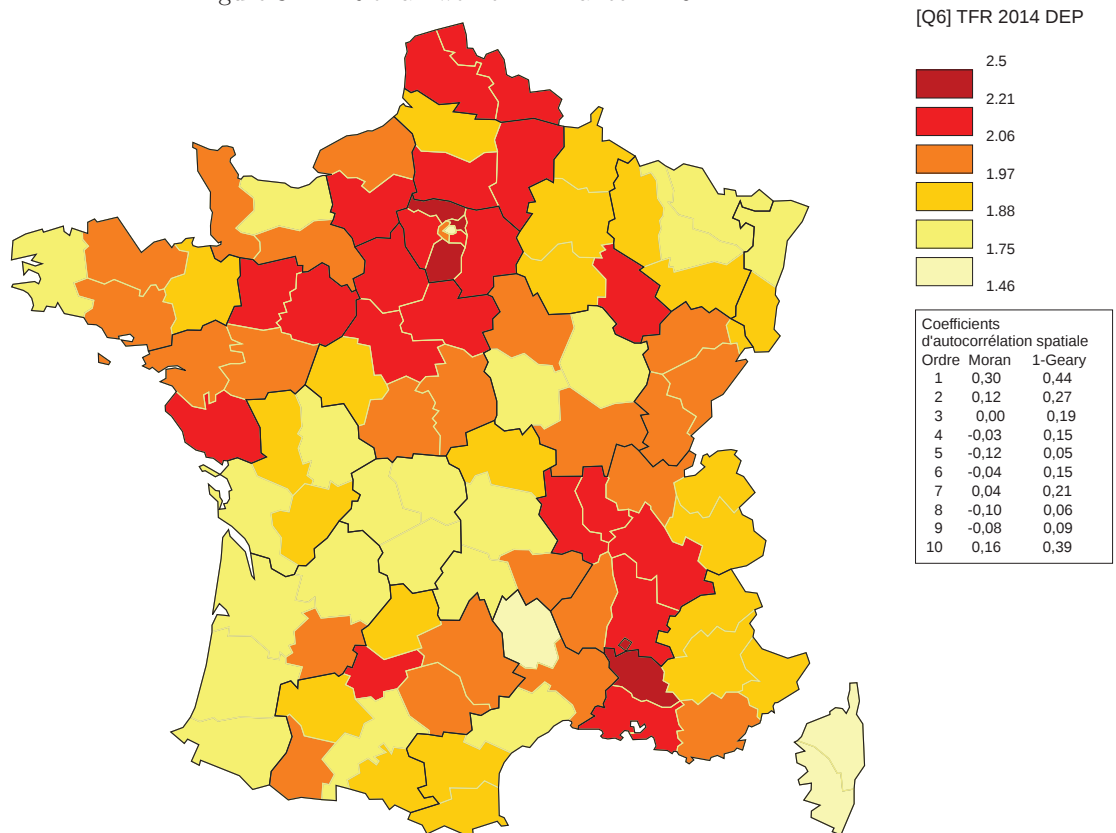


Figure 4: Persistent Fertility Differentials at Department Level in 4 Regions of France 1975 - 2014



Figure 5: Non-persistent Fertility Differentials at Department Level in 4 Regions of France 1975 - 2014





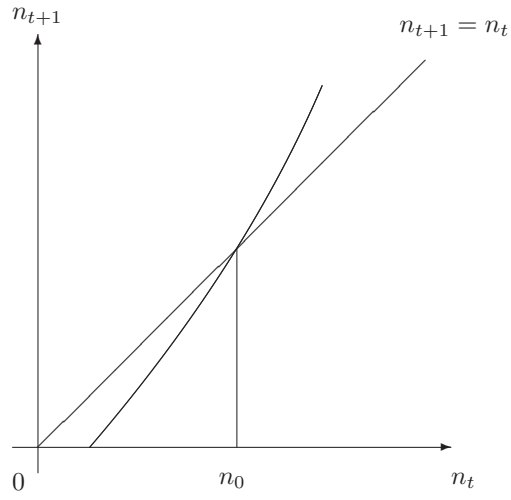


Figure 6: Dynastic altruism with  $\mu \geq 1$

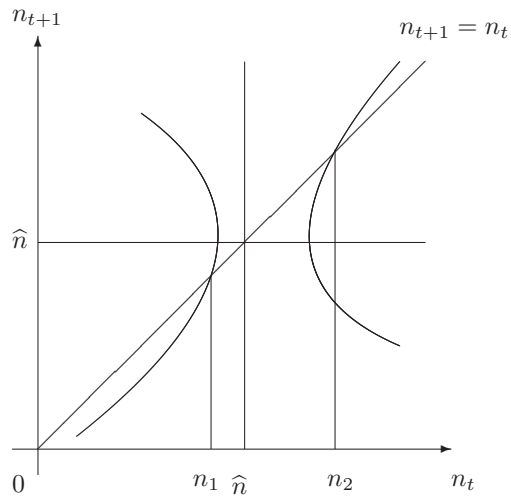


Figure 7: Dynastic altruism with  $0 < \mu < 1$

Figure 8: Predicted vs Fitted Data

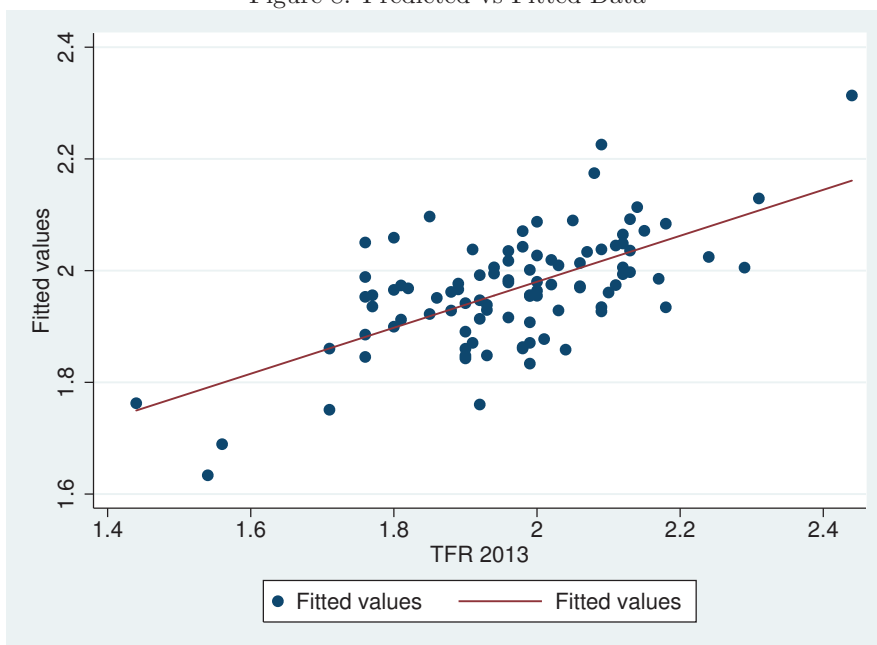


Figure 9: Distribution of Residuals

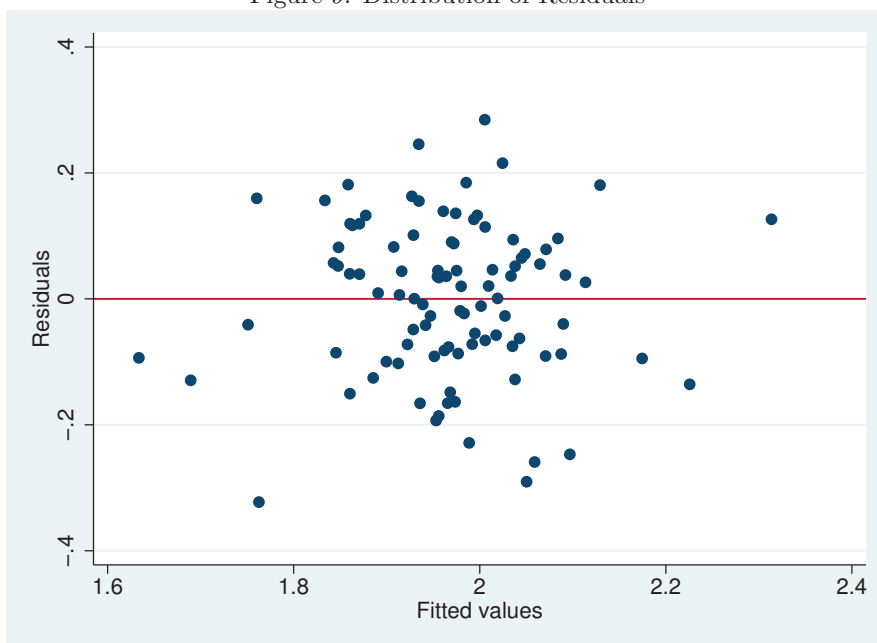


Table 1: Socio-economic Variables, Population Density and Cities

Department	Tfr	Median Wage	Act	Age	Dens	Main City	
67) Bas-Rhin	1.80	21594	18261	87.8	30.3	232	Strasbourg (275718)
68) Haut-Rhin	1.89	21874	17329	85.7	29.6	214	Mulhouse (112063)
54) Meurthe-et-Moselle	1.76	20274	18181	86.2	30.0	140	Nancy (104072)
55) Meuse	2.00	18945	16844	84.7	29.0	214	Verdun (40570)
21) Côte d'Or	1.76	20834	18412	90.2	30.6	60	Dijon (153003)
89) Yonne	2.12	19004	17372	86.7	29.2	46	Auxerre (34869)
13) Bouches-du-Rhône	2.13	20498	18797	82.4	30.4	390	Marseille (855393)
84) Vaucluse	2.26	18210	16850	83.4	29.6	106	Avignon (90305)

Table 2: Socio-economic Variables, Population Density and Cities

Department	Tfr	Median Wage	Act	Age	Dens	Main City	
01) Ain	1.98	21474	17723	89	29.6	390	Bourg-en-Bresse (40490)
69) Rhône	2.03	21662	19957	87.5	31.1	543	Lyon (500715)
11) Aude	1.96	17546	16162	84.1	29.2	59	Narbonne (52082)
66) Pyrénées-Or.	1.98	17816	16264	82	29.4	112	Perpignan (120959)
19) Corrèze	1.80	19224	17259	88.9	29.7	41	Brive-la-Gaillarde (46794)
23) Creuse	1.81	17642	16935	87.6	29.2	22	Gueret (13143)
16) Charente	1.96	19252	17392	88.1	29.2	59	Angoulême (41970)
17) Charente M.	1.82	19384	16790	88.3	29.6	92	La Rochelle (74344)

Table 3: Linear Regression Output

Source	SS	df	MS			
Model	.990987306	9	.110109701	Number of obs =	96	
Residual	1.41688664	86	.016475426	F( 9, 86) =	6.68	
Total	2.40787395	95	.025346042	Prob > F =	0.0000	
				R-squared =	0.4116	
				Adj R-squared =	0.3500	
				Root MSE =	.12836	

tfr2013dep	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
medianhouswithchildren2012	-.0000359	.000016	-2.24	0.027	-.0000678	-4.10e-06
womensalary2012	.0000318	.0000198	1.61	0.112	-7.57e-06	.0000711
bacrate2012	-.0063647	.0063983	-0.99	0.323	-.0190841	.0063547
activityratewomen2012	.0283238	.0065261	4.34	0.000	.0153504	.0412972
agemot2012	-.128913	.0396432	-3.25	0.002	-.207721	-.0501051
marriagerate2012	.1378143	.0576489	2.39	0.019	.0232121	.2524165
pop2012	1.33e-07	3.95e-08	3.36	0.001	5.43e-08	2.11e-07
immigrantshare	2.042475	.6926042	2.95	0.004	.6656231	3.419326
density	-.0000167	8.40e-06	-1.99	0.050	-.0000334	-2.51e-08
_cons	3.325749	1.092215	3.04	0.003	1.154498	5.497

Table 4: Linktest for Specification

tfr2013dep	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
_hat	2.819976	2.426116	1.16	0.248	-1.997811	7.637762
_hatsq	-.464051	.6177991	-0.75	0.454	-1.690878	.7627756
_cons	-1.779652	2.381748	-0.75	0.457	-6.509331	2.950028

Table 5: Multicollinearity test VIF

Variable	VIF	1/VIF
womensa-2012	8.10	0.123520
medianh-2012	6.09	0.164100
agemot2012	4.76	0.209926
immigrants-e	2.89	0.345503
density	2.48	0.402738
bacrate2012	2.37	0.422804
pop2012	2.26	0.441807
activit-2012	1.94	0.514353
marriag-2012	1.47	0.679573
Mean VIF	3.60	

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