ALTRUISM AND RISK SHARING IN NETWORKS

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Abstract
We provide the first analysis of the risk sharing implications of altruism networks. Agents are embedded in a fixed network and care about each other. We explore whether altruistic transfers help smooth consumption and how this depends on the shape of the network. We find that altruism networks have a first-order impact on risk. Altruistic transfers generate efficient insurance when the network of perfect altruistic ties is strongly connected. We uncover two specific empirical implications of altruism networks. First, bridges can generate good overall risk sharing and, more generally, the quality of informal insurance depends on the average path length of the network. Second, large shocks are well-insured by connected altruism networks. By contrast, large shocks tend to be badly insured in models of informal insurance with frictions. We characterize what happens for shocks that leave the structure of giving relationships unchanged. We further explore the relationship between consumption variance and centrality, correlation in consumption streams across agents and the impact of adding links. (JEL: D64, D85, G22, D80, O12)

Keywords: Altruism, Networks, Risk Sharing, Informal Insurance.

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