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EXPENDITURE DECISIONS OF DIVORCED MOTHERS
AND INCOME COMPOSITION

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Abstract

In this paper we analyze the relationship between the income sources of custodial divorced parents and their expenditure patterns. While recipients of child support transfers are not typically legally required to observe explicit expenditure guidelines, it is of interest to determine whether individuals receiving such transfers allocate their income differentially from those who do not. We use data from the Consumer Expenditure Survey to directly investigate the issue of whether or not divorced mothers receiving child support income spend larger amounts on "child goods" than those not receiving child support holding total household income constant. By comparing the estimated coefficients on child support income and other income in an of Engel curve specification we argue that we can classify child goods as being public or private and say something about the expenditure patterns of noncustodial fathers under a Nash-Cournot equilibrium model of parental expenditures on public child goods and some plausible assumptions regarding the manner in which child support transfer decisions are made by noncustodial fathers. Our empirical results indicate that income composition does affect the expenditure patterns of divorced mothers and that consumption externalities exist even among divorced parents. These results highlight the importance of examining changes in the expenditure patterns among *both* divorced parents when attempting to determine the implications of income transfers between the parents for the welfare of children.

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