

The Habit of Giving<sup>\*</sup>

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December 2009

<sup>\*</sup>I am extremely grateful to Nicole Arshan, B. Douglas Bernheim, William Hardt, Han Hong, Caroline Hoxby, Liam Morton, Sriniketh Nagavarapu, Kyle Pubols, David Roodman, Harvey Rosen, Andres Santos, Jeffrey Yellin, and seminar participants at Rice University and the University of Houston. I am especially indebted to Edward Van Wesep. This research was supported in part by the Stanford Institute for Economic Policy Research and by the Koret Foundation.

## Abstract

Habit formation in consumption is thought to exert great influence on behavior, but there has been little research done on long-term habit forming. Many charitable organizations believe it is worthwhile to solicit very small donations because these gifts, particularly from young people, form a habit of giving which leads to larger donations in the future. However, merely observing that those who give often when young are more likely to be generous donors later in life is not evidence of habit formation. Using data on alumni contributions to a university, we assess whether there is habit formation – true state dependence – or whether spurious state dependence is generated by unobservable factors such as affinity to the school. Performance of the school’s athletic teams and solicitation by one’s former roommates are used as instrumental variables that generate shocks to giving while young. There is strong evidence of habit formation, namely, that giving regularly is important, irrespective of amount. This finding has important implications for fundraising strategies, charities’ accounting practices, and tax policy, as well as models of behavior.

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## 1. Introduction

Habit formation is thought to exert great influence on behavior. It has been proffered as a potential answer to questions as disparate as the size of the equity premium (Abel [1990]), optimal purchases of insurance (Ben-Arab *et al.* [1996]), labor force participation (Woittiez and Kapteyn [1998]), the relationship between savings and growth rates (Carroll *et al.* [2000]), responsiveness to monetary policy (Fuhrer [2000]), the importance of brand loyalty (Gupta *et al.* [1997]), and the existence of a “gateway” effect between alcohol and illegal drug use (Pacula [1998]). Yet there is scant discussion in the economics literature about long-term habit forming. Most studies focus on shorter term intertemporal relationships, like changes in annual consumption (see, *inter alia*, Naik and Moore [1996], Dynan [2002], and Carrasco *et al.* [2005]). The importance of early influences on later risk-taking (Malmendier and Nagel [2007]) and motivations for purchasing different goods (Portolese-Dias [2004]) has been hypothesized. Yet there is little direct evidence on the long-term impact of shocks to behavior early in life, particularly in the way that preferences form and evolve.

Charities, in particular, care about building relationships with their donors and expend a great deal of effort in the pursuit of small gifts, with the expectation that they may lead to larger gifts in the future. Universities seem to be convinced that this strategy is effective, and with \$8.7 billion raised from alumni in 2008, the stakes are high (Council for Aid to Education [2009]). University administrators are frequently quoted referring to this belief. For example, the president of the University of South Dakota Foundation explained that “[g]etting young alumni to give just a little, \$10 or \$15, gets them in the habit. Maybe many years down the road they will be able to donate a lot” (Volante [2003]). The dean of alumni affairs at Columbia University similarly stated that “it isn’t about the dollars,” and that the purpose of getting young alumni to donate is to create a habit of giving (Durkin [2005]). Fundraising professionals agree – Bobbie Strand, a fundraising consultant, explains, “I would never say that a small gift is not

important because it's building that relationship. If you don't build those relationships today, you may not have their interest when the day comes that they can give those \$101 million donations" (Westmoreland [2008]).

There is little evidence that this belief is justified. While a number of studies have documented a positive correlation between giving when young and giving when older (see Monks [2003], Turner *et al.* [2001]), this may be driven by a number of factors that have nothing to do with building a relationship. This correlation may actually represent spurious state dependence that arises from unobserved heterogeneity – like the alumnus's affinity for the school. This is contrasted with true state dependence, in which a donation in one period affects preferences for donating in a later period.

Perhaps due to the difficulties of separating true state dependence from spurious correlation, there is little research that directly addresses persistence in donations. In a paper analyzing panel data from income tax returns, Auten *et al.* [2002] note that "habit formation is probably not very important in charitable behavior," as they fail to find significantly positive autocorrelations of donations over time. Monks [2003] mentions, in passing, that "[i]dentifying young alumni who are more likely to give and encouraging them to do so, even in modest dollar amounts, may have significant lifetime giving effects." Turner *et al.* [2001] concur, explaining that "participation rates are often thought to be... important precursors of giving patterns later in life. In this regard, young alumni are sometimes encouraged to make token gifts... so that they may begin a habit of giving back." Lindahl and Winship [1994], in an effort to identify large donors, model giving to Northwestern University between 1988 and 1990 as a function of earlier giving and other predictors. As their purpose is solely to identify these large donors, they admit that causality is unclear and go as far as to say that they "would not be at all surprised to find that past giving had little or no 'true' effect on current giving." Smith *et al.* [1995] look at how a household's "altruistic history" affects its probability of making a donation to a local health clinic, using indicators for donations to other

charities in the previous year. They find that prior donations to non-religious charities are associated with a higher likelihood of donation, but this relationship is taken as a proxy for attitudes towards altruism rather than a causal relationship.

It is clear why university development offices pursue large gifts; their pursuit of smaller gifts requires closer examination. While participation rates are a factor in university rankings, it seems evident from the discussion above that development officials assume that habit-forming in charitable contributions exists and is sufficiently important to justify possibly incurring losses in the pursuit of small gifts when alumni are young, with the expectation that this will lead to larger gifts in the future. These beliefs hinge on the idea that a habit can form by the simple act of making a gift, and the amount given is secondary or possibly even irrelevant. In essence, the proponents of this idea believe that giving regularly when young will cause the individual to be in a state of “focus” for giving when older – willing to make a larger gift, perhaps because they are accustomed to giving to the charity in each year. Standard models of habit forming, in which the amount given in an earlier period affects a stock variable and the individual receives disutility from deviating from this level, do not account for this phenomenon. Those models imply that individuals are in the habit of giving a certain amount of money per year, not that they are in the habit of giving in general.

This paper proposes a simple model that predicts habit forming from both the amount of giving and whether a gift is made, and uses a unique data set to measure the relative importance of these effects. We study alumni contributions to an anonymous private selective research university, henceforth referred to as Anon U. The proprietary data provided by Anon U contain detailed information about donations made by alumni as well as a variety of their economic and demographic characteristics, and allow us to estimate measures of habit forming in charitable giving untainted by unobserved heterogeneity.

Section 2 describes the Anon U data set. Section 3 presents a model of habit formation in charitable giving, while Section 4 presents the results, which show that persistence in charitable giving is mostly driven by frequent giving when young, not the amount of giving when young. Section 5 concludes and provides suggestions for future research.

## 2. Data

Our primary data source is the administrative archives of Anon U's Development Office, which contain information on all alumni donations from 1983 to 2009. The data are proprietary and sensitive, and individuals' names were stripped from the records before being made available to us. Our unit of observation is the individual. We define giving when young as the log of the average of gifts made between graduation and the end of the alumnus's fifth year since graduation, that is, through the first major reunion. Frequent givers when young are those who gave in each of the first five years after graduation, irrespective of amount. Giving when older is defined in two ways: first, as the log of the average gift made between the alumnus's 20<sup>th</sup> year since graduation and 2009. Second, large gifts when older are defined using an indicator equaling one if the alumnus was in the top 10 percent in his or her class in total giving between the 20<sup>th</sup> year since graduation and 2009. An alternate specification redefines both of these measures using the gifts made between 15 years after graduation and 2009 for classes with at least 20 years of data in the sample.

The Development Office data also include information on academic major and minor, extracurricular activities when the alumnus was an undergraduate, several variables that can be considered as proxies for affinity (such as payment of class dues), post graduate education, residence, whether he or she is married to another graduate of Anon U, and location in a given year. Anon U's Registrar supplemented these data with information on SAT scores, academic honors, ethnicity, type of high school, summary

evaluations made by the Admissions Office during the application process, and college grade point average.

In addition, we have information regarding varsity athletic team on which the alumnus participated as an undergraduate, as well as the team's conference finish in each year, including the performance of the alumnus's team during his or her undergraduate years. This provides a valuable source of exogenous variation. Variables indicating whether varsity team on which the alumnus participated as an undergraduate – if any – won its conference championship have a transitory effect on giving. The data also contain information about the volunteering activities of alumni. Variables indicating whether an alumnus's former freshman year roommate is a solicitor in that year also provide exogenous shocks to giving. Further discussion of these measures and their use as instrumental variables is in Section 3; see Meer and Rosen [2008] for a more complete discussion of the role of athletics in alumni giving and Meer [2009] for more details on the effects of peer influence on charitable giving.

Since we need to observe the first five years of an alumnus's giving history, the oldest class that can be included in the sample is the class of 1982, for which the first giving opportunity was 1983. This limitation is not ideal, since the alumnus's giving histories do not extend through the entirety of peak earnings years; members of the class of 1982 are about 49 years old at the end of our sample. Moreover, a relatively limited amount of data is available past the 20 years-since-graduation mark – the class of 1982 has eight years of data comprising their measure of giving when older. However, the richness of our data should enable us to examine the mechanisms by which habits form in charitable giving. Focusing on alumni from classes of 1982 to 1989, the sample includes 8,367 alumni giving histories. Dropping those with missing covariates and those who died prior to 2009 leaves 8,120 individuals. 72.6 percent of these individuals made gifts of any size between their 20<sup>th</sup> year since graduation and 2009, with a mean positive

average gift, in 2009 dollars, of \$2,049.11, and a median of \$124.23.<sup>1</sup> Examining their giving when young, in the first five years since graduation, 81.2 percent made any gift, and 28.1 percent of individuals gave in each of those first five years. This latter category is our definition of frequent givers when young. The mean positive average gift in this period in 2009 dollars, is \$53.03, with a median of \$26.21. It is clear that giving is characterized by large outliers; in our estimates, therefore, we take logs of the amount of giving.<sup>2</sup>

The raw data indicate that there is a relationship between giving when young and giving when older. The correlation between the log of the average gift in the first five years and the log of the average gifts from the 20<sup>th</sup> year after graduation onwards is 0.51. Among those who were not frequent givers when young, 64.4 percent gave at least once when older, while the giving rate when older is 93.9 percent among those who were frequent givers when young. The mean gift when older, conditional on giving, for those who were not frequent givers when young is \$1245.69 with a median of \$100.07, while for those who were frequent givers, the respective figures are \$3457.62 and \$198.63. However, it is impossible to ascribe a causal relationship to these differences – unobserved affinity drives both giving when young and giving when older.

Unfortunately, the data include no direct information on income, which is clearly an important determinant of giving. However, for a large subset of these alumni, 6,389 individuals, we have information that is closely related to permanent income: field and occupation. The start- and stop-dates for these variables are unreliable; we therefore use create a series of indicators for whether the alumnus was ever employed in that field or

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<sup>1</sup> Examining the sum of gifts made from the 15<sup>th</sup> year since graduation onward by these individuals, 80.3 percent made a gift of any size, with a mean positive average gift of \$1139.59 and a median of \$101.09.

<sup>2</sup> A logarithmic transformation presents problems for observations that take a value of zero. 76 individuals have an average gift greater than zero but less than or equal to \$1.00 when young, along with 18 such observations when older. We set these equal to \$1.01. Therefore, observations for which there is no giving are associated with \$1, whose logarithm is zero.



at that occupation. We estimate the model with this subsample, including the field and occupation data, in order to see whether our results are sensitive to their inclusion.<sup>3</sup>

Table A1 contains summary statistics and definitions of the variables used in this study, including field and occupation variables.

### 3. Model

We begin with the outline of a model that allows for habit formation based on both the amount given when young, in period 1 ( $g_1$ ), and whether the individual gave when young. Individuals can either be in a non-giving state when young or a giving state. That is,

$$(1) \quad g_1 = \begin{cases} 0 & \text{w/ prob. } 1-P_1(m_1) \\ \arg \max_{g'_1 \geq 0} u_1(g'_1, R_1 - g'_1; n_1) & \text{w/ prob. } P_1(m_1) \end{cases}$$

where  $R_1$  is resources when young,  $m_1$  is fundraising effort by the charity in the pursuit of small gifts (that is, in convincing potential donors to make any gift at all, perhaps by making potential donors aware of the charity and its needs), and  $n_1$  is fundraising effort by the charity in the pursuit of larger gifts (for example, through more intense solicitation).  $P_1(m_1)$  is increasing in  $m_1$ , so an individual is more likely to be in the giving state if the charity pursues small gifts. Conditional on being in the giving state, the individual maximizes a utility function that is differentiable and increasing in each argument.

Period 2 resources are random, reflecting the university's uncertainty about which of its alumni will have high incomes in the future. Once again, individuals can be in either a non-giving state or a giving state.

$$(2) \quad E[g_2] = \begin{cases} 0 & \text{w/ prob. } 1-P_2(m_2, I(g_1 > 0)) \\ \arg \max_{g'_2 \geq 0} u_2(g'_2, R_2 - g'_2, g_1; n_2) & \text{w/ prob. } P_2(m_2, I(g_1 > 0)) \end{cases}$$

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<sup>3</sup> Estimating the model without field and occupation covariates, but using the field and occupation sample, shows no qualitative differences with the results from the full sample.

Where  $R_2$  are realized resources in the second period,  $m_2$  is fundraising effort by the charity in the pursuit of small gifts, and  $n_2$  is fundraising effort by the charity in the pursuit of large gifts. The probability of being in the giving state is now determined by both fundraising effort on the extensive margin and whether the individual was a giver in the first period, with the probability increasing on both dimensions.

*Assumption 1: The marginal utility from giving in both periods is increasing in the charity's contemporaneous solicitation efforts.*

*Assumption 2: The discount factor between the two periods is very small.*

*Assumption 3: The marginal utility from giving in period two is not decreasing in period one giving.*

The increasing marginal utility in assumption 1 may stem from a variety of sources, including benefits from additional recognition or warm glow.<sup>4</sup> Assumption 2 prevents agents in the early period from being forward looking, which is consistent with the time lapse between the early and later periods in our data and allows the two functions to be maximized separately. Assumption 3 requires that those who give earlier not feel decreased satisfaction from continuing to give, which seems reasonable.

To show that gifts in period 1 are increasing in resources and the charity's efforts, we show that  $u_1$  is supermodular in  $g_1$  and the parameters  $R_1$  and  $n_1$ . Given the differentiability assumption, it is sufficient to show that the mixed partial derivatives between the choice of gift and parameters are weakly positive. Concavity assures this for financial resources, while assumption 1 assures it for solicitation intensity.

$$(3) \quad \frac{\partial u_1}{\partial g_1 \partial R_1} > 0$$

$$(4) \quad \frac{\partial u_1}{\partial g_1 \partial n_1} > 0$$

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<sup>4</sup> It is also possible that increased solicitation results in lower marginal utility. Diamond and Noble [2001], using results from a small survey, find that donors may develop defense mechanisms in response to frequent or aggressive solicitation. We assume that equation (3) holds in the region with which we are concerned.

From (3), (4), and Topkis's Theorem, we have

$$(5) \quad \frac{\partial g_1(R_1, n_1)}{\partial R_1} \geq 0$$

$$(6) \quad \frac{\partial g_1(R_1, n_1)}{\partial n_1} \geq 0$$

Gifts in period 1 are increasing in resources and the charity's solicitation efforts in the pursuit of larger gifts.

Next, we show that  $E[g_2]$  is weakly increasing in  $I(g_1 \square 0)$ ,  $R_2$ ,  $n_2$ , and  $g_1$ . Note that  $g_2 = 0$  in the nongiving state and is constant with respect to  $I(g_1 \square 0)$  in the giving state;  $I(g_1 \square 0)$  only affects the probability of being in the giving state. Since  $P_2(m_2, 1) \square P_2(m_2, 0)$ ,  $E[g_2]$  is weakly increasing in  $I(g_1 \square 0)$ . It is also the case that

$$(7) \quad \frac{\partial u_2}{\partial g_2 \partial R_2} > 0$$

$$(8) \quad \frac{\partial u_2}{\partial g_2 \partial n_2} > 0$$

$$(9) \quad \frac{\partial u_2}{\partial g_2 \partial g_1} \geq 0$$

The arguments behind (7) and (8) are equivalent to those behind (3) and (4), while assumption 3 implies (9). Therefore, we see that

$$(10) \quad \frac{\partial E[g_2(R_2, n_2, g_1)]}{\partial I(g_1 > 0)} \geq 0$$

$$(11) \quad \frac{\partial E[g_2(R_2, n_2, g_1)]}{\partial g_1} \geq 0$$

Thus, giving in the second period will be higher both if the individual gave at all when young and if the individual gave a larger amount when young.

Do habits form as a result of the size of the gift, or from the act of giving a gift when young irrespective of the size, or both? Merely estimating a model of giving in pe-

riod 2 as a function of giving in period 1 and being a frequent giver in period 1 will not yield estimates with a causal interpretation. After all, giving when both young and old could be driven by some unobservable variables, such as affinity for the school. Equations (12) to (14) show a specification that is consistent with the model described above

$$(12) \quad \begin{aligned} Y_{2i} &= \max(0, \beta_1 Y_{1i} + \beta_2 D_{1i} + X_i \gamma + \nu_{2i}) \\ \nu_{2i} &= \mu_i + \varepsilon_{2i} \end{aligned}$$

$$(13) \quad \begin{aligned} Y_{1i} &= \max(0, \varphi_1 Z_{1i} + X_i \delta + \nu_{1i}) \\ \nu_{1i} &= \mu_i + \varepsilon_{1i} \end{aligned}$$

$$(14) \quad \begin{aligned} P(D_{1i} = 1) &= F(\phi_1 Z_{1i} + X_i \lambda + \eta_{1i}) \\ \eta_{1i} &= \mu_i + \omega_{1i} \end{aligned}$$

$Y_{2i}$  is the log of the average gift in the 20<sup>th</sup> year after graduation and onwards,  $Y_{1i}$  is the log of the average gift in the first five years after graduation,  $D_{1i}$  is an indicator for being a frequent giver in period 1 – making a gift in each of the first five years after graduation – while  $X_i$  is a vector of covariates described in Table A1.<sup>5</sup>  $\square_1$  and  $\square_2$  represent true state dependence, that is, the actual effect of giving behavior in period 1 on giving in period 2. But spurious state dependence can be present as well – note that the error term consists both of a period 2 specific shock and a time-invariant effect. The latter,  $\square_i$ , represents unobserved affinity, which is related to giving behavior in both periods. Higher levels of  $\square_i$  are associated with higher  $Y_{1i}$ , a higher probability that  $D_{1i}$  equals one, and higher  $Y_{2i}$ , leading to spurious state dependence. Since  $\square_i$  affects both  $Y_{1i}$  and  $D_{1i}$ , estimating Equation (12) without accounting for this correlation results in biased estimates.

An instrumental variables approach is required. In particular, instruments, labeled  $Z_{1i}$ , are needed that affect  $Y_{1i}$  and  $D_{1i}$ , but are uncorrelated with  $\square_i$  and  $\square_{2i}$ . The athletic performance and roommate solicitation variables mentioned in Section 2 meet

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<sup>5</sup> Means of time-varying variables – specifically, the location effects – for each alumnus are used in  $X$ . Graduating class-year effects are also included, which account for any cohort-specific shocks during those individuals' time at the university, as well as the number of years since their graduation.

these requirements. First examining the athletic performance variables, we construct an indicator taking a value of 1 if the varsity athletic team on which the alumnus participated as an undergraduate, if any, won its conference championship in any of the first five years after graduation. Meer and Rosen [2009] show that these variables affect current giving, thus fulfilling the first criterion; alumni who participated on an athletic team have an increase in affinity in years in which their former team does particularly well. Lack of correlation between athletic performance and  $\square_{2i}$  also seems fairly evident. There is no reason to think that an alumnus's former team's performance in the first few years after graduation will be correlated with a shock to giving fifteen to twenty years later. Correlation between athletic performance and  $\square_i$  is more worrisome. First, it is likely that there is correlation between the performance of the alumnus's team *while* he or she was an undergraduate and his or her affinity, as measured by  $\square_i$ . If there is also correlation between a team's performance from year to year, this may lead to correlation between  $Z_{1i}$  and  $\square_i$ . We account for this possibility for this by including, in  $X$ , a set of indicators taking a value of 1 if the alumnus's team, if any, won a conference championship in his or her freshman, sophomore, junior, or senior year.<sup>6</sup> Conditional on being an athlete, 56.3 percent of individuals' former teams won a championship during the relevant period; this corresponds to an overall rate of 19.7 percent. Second, if affinity is a stock variable and shocks to it do not dissipate from year to year, then the athletic performance variables may have long-lasting effects and may not be excluded from (12). The long period of time between periods 1 and 2 in our data, though, make this scenario very unlikely. For this mechanism to be operative, one would have to believe that giving between 2002 and 2009 for an alumnus who graduated in 1982 is directly affected in a meaningful way by whether his or her former team won a conference championship in, say, 1985.

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<sup>6</sup> Including sets of indicators for second, third, and other finishes in each undergraduate year does not affect the results.

Turning to the solicitation variables, we construct an indicator taking a value of 1 if the individual's former freshman year roommate is a solicitor at any point in the first five years after graduation.<sup>7</sup> Approximately 23 percent of the sample satisfies this definition. Meer [2009] shows that the presence of this relationship affects giving in the current year. Correlation with the error terms when older seems unlikely for same reason as athletics; there is no reason to believe that having a former freshman year roommate who is a solicitor in the first few years after graduation is correlated with shocks to giving twenty years later. Correlation with the fixed effect is much more problematic. An individual's affinity for the school (and therefore giving) is likely to be correlated with his or her roommate's; if both have high affinity due to common experiences, there may be a spurious correlation between an alumnus's giving and his or her roommate's volunteering. Meer [2009] analyzes whether the relationship between the alumnus's giving and his or her former roommate's volunteering is due to joint affinity shocks. Using the conditional random assignment of freshman roommates, information about non-solicitation types of volunteering, the timing of giving, and fixed effects estimates, the results of that work strongly indicate that this peer influence on charitable giving is not due to spurious correlation, and represents a transitory shock to giving behavior. We therefore estimate  $Y_{1i}$  and  $D_{1i}$  with, respectively, a Tobit and a probit, as a function of  $Z_{1i}$  and  $X_i$ . These models are shown in (13) and (14), where  $F$  is the cumulative normal distribution function. We estimate (12), (13), and (14) jointly using Roodman's [2009] conditional recursive mixed-process estimator. This provides unbiased estimates of the parameters of interest,  $\square_1$  and  $\square_2$ . If the amount given when young truly has an effect on

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<sup>7</sup> Start- and stop-dates for volunteers are not reliable prior to 1992. Therefore, this variable measures whether an individual's freshman year roommate is listed as having been a solicitor in 1991 or earlier. Clearly, for younger classes this is quite close or identical to whether the alumnus's roommate was a solicitor in the first five years after graduation. For older classes, the variable is merely measured with some noise.

giving when older, then  $\beta_1$  will be positive; if focus mechanism is operative, then  $\beta_2$  will be positive.<sup>8</sup>

## 4. Results

### 4.1 Amount of Giving

We begin by examining whether habit forming has an effect on the average gift given when older. Table 1 presents unconditional marginal effects from a Tobit model without instrumental variables – that is, estimating (4) above. Column (1) shows marginal effects for the average gift given from the alumnus’s 20<sup>th</sup> year since graduation through 2009. The elasticity of giving between young and old is about 0.31, meaning that a 10 percent increase in giving when young is associated with a 3.1 percent increase in giving when old. Given the means of giving, this implies that a \$4 increase in giving when young is associated with a \$46 increase in giving when older. Being a frequent giver when young is associated with 5.9 percent higher giving when older, a statistically insignificant and relatively small amount.

As mentioned above, limiting the sample to the 20<sup>th</sup> year after graduation and later leaves relatively few giving opportunities for each alumnus. Taking the average gift from the 15<sup>th</sup> year after graduation through 2009 for those who, by 2009, graduated more than 20 years previously reduces the likelihood that the results are not being driven by those alumni who give smaller gifts more frequently. Those results, in Column (2), show similar results to Column (1). Including proxies for income, like field and occupation, do not affect the results either (see Column (3)). These variables are related

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<sup>8</sup> It is possible that these parameters measure a selection effect rather than habit forming. Namely, it may be that the Development Office targets individuals in period 2 who were large or frequent donors in period 1, and this increased solicitation is responsible for the correlation between giving in the two periods. While we have no way of definitively proving or disproving this hypothesis, the solicitation process at Anon U is such that all individuals, excepting a relatively small number of extremely large givers, are solicited in effectively the same way. This is especially true when the alumni are young. Thus, this mechanism unlikely to be driving the estimates of  $\beta_1$  and  $\beta_2$ . Furthermore, if this effect is actually driving the results, then estimates that drop large givers should be dramatically different from the main specifications. Dropping the top one percent of givers in the young period has little qualitative effect on our results; we therefore conclude that the possibility of increased solicitation based on earlier giving is unlikely to be affecting the results.

to permanent income, which will obviously be a driving factor in an individual's ability to give. These uninstrumented results imply that universities' policies of pursuing frequent small gifts when alumni are young in an effort to create a habit may not pay large dividends. However, one cannot draw causal conclusions from these, as they do not correct for the fact that giving when both young and old is likely to be driven by affinity.

Results that account for this endogeneity are presented in Table 3, calculated as per the discussion in Section 3.<sup>9</sup> The results are radically different from those in Table 1. The results for the average gift from twenty years onward, in Column (1), indicate that the amount given when young has little effect on the amount given when old, though the estimates are not precise (-0.0852, s.e. = 0.196). On the other hand, the coefficient for the frequent giver when young indicator is very large and significant, 2.01 (s.e. = 0.149). This implies that, *ceteris paribus*, an alumnus who gave frequently when young gives, on average, 6.5 times more when older than an alumnus who did not give. It is important to note that this holds the amount given when young fixed – that is, if two alumni give the same amount when young, but one gives in each year and the other does not, the frequent giver is expected to give much more when older. These results are consistent across specifications. Defining giving when older as beginning in the 15<sup>th</sup> year after graduation, the elasticity of giving when older with respect to giving when young is -0.105 (s.e. = 0.122), while the frequent giver effect is 1.59 (s.e. = 0.144). Including field and occupation variables yields similar results, with an elasticity of giving of -0.0079 (s.e. = 0.298) and a frequent giver effect of 2.00 (s.e. = 0.176). Without drawing too much inference from the exact magnitudes, it seem evident that the pursuit of frequent gifts from young alumni, even if the university suffers a loss in the process, is justified.

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<sup>9</sup> Table 2 presents the results for log of giving when young and frequent giver when young as a function of the instruments. These variables are jointly significant at  $p = 0.0066$  for the log of giving when young and at 0.0089 for the frequent giver when young indicator.



We now turn to habit forming effects for large givers, whose donations make up the bulk of the money raised in each year.

#### 4.2 Class Leaders

Given that the university's desire is to cultivate large givers, it stands to reason that we should examine the probability that an alumnus is a large giver relative to his or her class as a function of giving when young. To that end, we define a "class leader" as being an individual whose gift when older is in the top 10 percent of his or her class. Column (1) of Table 4 presents uninstrumented results for the probability of being a class leader, defining giving when old as being the sum of gifts in the 20<sup>th</sup> year after graduation and onwards. The coefficient on the log of giving when young, 0.212 (s.e. = 0.00190), implies that a 10 percent increase in the size of the gift when young increases the probability of being a class leader when older by 0.21 percentage points. While this result is statistically significant, it is relatively small. The frequent giver effect in this specification is even smaller in absolute value and insignificant, -0.0057 (s.e. = 0.0036). The results in Columns (2) and (3) are similar. The conclusion drawn from these uninstrumented estimates is that giving when young has little predictive power on an individual's likelihood of being a big giver, relative to his or her class, when older.

Turning to the instrumented estimates, in Table 5, we find a different story. The log of giving when young has a positive and statistically significant effect on the probability of being a class leader, 0.118 (s.e. = 0.0175). This effect seems quite large – a 10% increase in giving when young is associated with an increase in the probability of being a class leader of about 1 percentage point, with the baseline probability of being a class leader being, by definition, 10 percent. The effect is similar for the fifteen year onward specification in Column (2) and the field and occupation specification in Column (3). Turning to the effect of being a frequent giver when young, we see large and significant effects. In Column (1), this effect is 0.245 (s.e. = 0.0471), and it is of similar magnitude in Columns (2) and (3). This is a very large effect given that a randomly chosen alum-

nus has a 10 percent probability of being a class leader. The coefficient's magnitude can be explained by the relatively small number of frequent givers<sup>10</sup> and the local nature of the marginal effect. Regardless, it seems that once endogeneity is accounted for, frequent givers when young are far more likely to be class leaders when older.

## 5. Conclusions

Using a unique and relatively long panel of gifts to a university, we have examined how giving patterns when young affect giving when older. The intuition of professional fundraisers, who argue that building a habit of giving when an alumnus is young can lead to large gifts when older, seems justified. Given the large magnitude of the effect of being a frequent giver when young, charities in general and universities in particular should focus their efforts on raising participation rates among the young. Even if the benefits are far in the future, the effects are large enough to justify incurring some losses in the pursuit of gifts now. These results also have implications for the accounting practices of charities, which are often required to report fundraising expenses, with the ratio of donations to expenses being used as a measure of the charity's efficiency. But if there is substantial long-term habit formation, these ratios will understate the true benefits of fundraising and perhaps even unfairly penalize charities that focus on building relationships that may yield large gifts in the future.

Habit forming also has implications for estimates of the tax price elasticity of charitable donations. Lowering the cost of giving may cause much larger effects than those measured using short panels or cross sectional data. It is also important that, while the results measured in this paper examining the effects of behavior of the relatively young, it is also possible that these sorts of long-term effects can arise in older in-

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<sup>10</sup> Of the frequent givers when young (who comprise about 30 percent of the sample), 18.6 percent are class leaders when older, while only 7.3 percent of those who were not frequent givers when young are class leaders when older.

dividuals. Therefore, the scope of government interventions in charitable giving may not be limited to encouraging giving by the young.

These results also have significance for models of habit forming in other applications. Early experiences and habits that form through a “focus” margin may have large impacts late in life and should be considered in the design of models of behavior.

Finally, while this paper examines habit formation over a relatively long period, there may also be shorter-term effects. For instance, giving in one year may affect giving in the next by providing a reference amount or simply the routine of giving a certain amount. Future research will focus on this question.

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Table 1\*  
Uninstrumented Estimates – Amount of Gifts

	(1) Twenty Years On	(2) Fifteen Years On	(3) Field and Occupation
Log Average Giving when Young	0.313** (0.0201)	0.360** (0.0173)	0.315** (0.0236)
Frequent Giver when Young	0.0590 (0.0490)	-0.0422 (0.0436)	0.0357 (0.0558)

\*Columns (1) and (2) are based on 8,120 observations on alumni graduating in the classes of 1982 through 1989. Column (3) is based on 6,389 observations with complete data on field and occupations. This table report unconditional marginal effects on the amount of giving when older, generated by a Tobit model without instrumenting for the log of giving when young and the frequent giver when young indicator. Robust standard errors are reported in parentheses; those significant at the 10% level are marked with \*, while those significant at the 5% level are marked with \*\*. In addition to the variables listed above, models include the covariates listed in Table A1, class effects and location effects (averaged over each alumnus's post-graduation history). Column (3) include the field and occupation variables listed in Table A1. Full results are available on request.

Table 2\*  
First Stage Estimates

	(1) Log Average Giving when Young	(2) Frequent Giver when Young
Freshman roommate was solicitor in the first 5 years	0.0816** (0.0403)	0.0195** (0.00925)
Team championship in the first 5 years	0.152** (0.0618)	0.0308** (0.0151)
Joint Probability of Significance	0.0066	0.0089

\*Results in this table are based on 8,120 observations on alumni graduating in the classes of 1982 through 1989. Column (1) reports unconditional marginal effects on the log of giving when young based on results from the conditional recursive mixed-process estimator (Roodman [2009]) corresponding to Column (1) in Table 3. Column (2) reports marginal effects on the probability of being a frequent giver when young, based on results from a conditional recursive mixed-process estimator corresponding to Column (1) in Table 3. Robust standard errors are reported in parentheses; those significant at the 10% level are marked with \*, while those significant at the 5% level are marked with \*\*. In addition to the variables listed above, models include the covariates listed in Table A1, class effects and location effects, averaged over each alumnus's post-graduation history. Full results are available on request.

Table 3\*  
Instrumented Estimates - Amount of Gift

	(1) Twenty Years On	(2) Fifteen Years On	(3) Field and Occupation
Log Average Giving when Young	-0.0852 (0.196)	-0.105 (0.122)	-0.00790 (0.298)
Frequent Giver when Young	2.01** (0.149)	1.59** (0.144)	2.00** (0.176)

\*Columns (1) and (2) are based on 8,120 observations on alumni graduating in the classes of 1982 through 1989. Column (3) is based on 6,389 observations with complete data on field and occupations. This table reports unconditional marginal effects on the amount of giving when older based on results from a conditional recursive mixed-process estimator (Roodman [2009]), instrumenting for the log of giving when young and the frequent giver when young indicator using the `won5` and `solicitor5` variables described in Table A1. Robust standard errors are reported in parentheses; those significant at the 10% level are marked with \*, while those significant at the 5% level are marked with \*\*. In addition to the variables listed above, models include the covariates listed in Table A1, class effects and location effects, averaged over each alumnus's post-graduation history. Column (3) includes the field and occupation variables listed in Table A1. Full results are available on request.

Table 4\*  
Uninstrumented Estimates – Class Leaders

	(1) Twenty Years On	(2) Fifteen Years On	(3) Field and Occupation
Log of Giving when Young	0.0212** (0.00190)	0.0200** (0.00183)	0.0257** (0.00244)
Frequent Giver when Young	-0.00571 (0.00355)	-0.00406 (0.00295)	-0.00963* (0.00482)

\*Columns (1) and (2) are based on 8,120 observations on alumni graduating in the classes of 1982 through 1989. Column (3) is based on 6,389 observations with complete data on field and occupations. This table report marginal effects on the probability of being in the top 10 percent of givers in one's class, generated by a probit model without instrumenting for the log of giving when young and the frequent giver when young indicator. Robust standard errors are reported in parentheses; those significant at the 10% level are marked with \*, while those significant at the 5% level are marked with \*\*. In addition to the variables listed above, models include the covariates listed in Table A1, class effects and location effects ( averaged over each alumnus's post-graduation history). Column (3) include the field and occupation variables listed in Table A1. Full results are available on request.

Table 5\*  
Instrumented Estimates – Class Leaders

	(1) Twenty Years On	(2) Fifteen Years On	(3) Field and Occupation
Log of Giving when Young	0.118** (0.0175)	0.144** (0.0189)	0.146** (0.0254)
Frequent Giver when Young	0.245** (0.0471)	0.192** (0.0569)	0.232** (0.0637)

\*Columns (1) and (2) are based on 8,120 observations on alumni graduating in the classes of 1982 through 1989. Column (3) is based on 6,389 observations with complete data on field and occupations. This table reports unconditional marginal effects on the probability of being in the top 10 percent of givers in one's class, based on results from a conditional recursive mixed-process estimator (Roodman [2009]), instrumenting for the log of giving when young and the frequent giver when young indicator using the won5 and solicitor5 variables described in Table A1. Robust standard errors are reported in parentheses; those significant at the 10% level are marked with \*, while those significant at the 5% level are marked with \*\*. In addition to the variables listed above, models include the covariates listed in Table A1, class effects and location effects, averaged over each alumnus's post-graduation history. Column (3) includes the field and occupation variables listed in Table A1. Full results are available on request.



Table A1\*  
Variable Definitions and Summary Statistics

Variable	Description	Mean	Standard Deviation
Gave20	Gave at all from the 20 <sup>th</sup> year after graduation on	0.727	0.446
Gave15	Gave at all from the 15 <sup>th</sup> year after graduation on	0.803	0.398
Gave5	Gave at all in the first five years after graduation	0.812	0.390
Average20	Average of gifts, in 2009 dollars, from the 20 <sup>th</sup> year after graduation on, conditional on giving	2,049.11	23,302.19
Average15	Average of gifts, in 2009 dollars, from the 15 <sup>th</sup> year after graduation on, conditional on giving	1,139.59	7,402.81
Average5	Average of gifts, in 2009 dollars, in the first five years after graduation, conditional on giving	53.03	182.75
First5	1 if the alumnus made gifts in each of the first five years after graduation	0.281	0.450
Won5	1 if the alumnus's own former team won the conference championship in any of the first five years after graduation	0.197	0.398
Solicitor5	1 if the alumnus's freshman year roommate was a solicitor in any of the first five years after graduation	0.229	0.420
FreshmanRec	1 if the alumnus's team won the conference championship during the alumnus's freshman year	0.0842	0.278
SophomoreRec	1 if the alumnus's team won the conference championship during the alumnus's sophomore year	0.0810	0.273
JuniorRec	1 if the alumnus's team won the conference championship during the alumnus's junior year	0.0745	0.263
SeniorRec	1 if the alumnus's team won the conference championship during the alumnus's senior year	0.0730	0.260
Spouseisalum	1 if the spouse is an alumnus	0.148	0.355
Male	1 if the alumnus is male	0.621	0.485
<i>Race/Ethnicity</i>			
White	Omitted Category: 1 if the alumnus is White	0.822	0.382
Amerind	1 if the alumnus is a Native American	0.0028	0.0531
Black	1 if the alumnus is Black	0.0681	0.252
Hispanic	1 if the alumnus is Hispanic	0.0420	0.201
Asian	1 if the alumnus is Asian	0.0649	0.246
<i>Secondary Schooling</i>			
Public	Omitted Category: 1 if the alumnus attended public school	0.581	0.493
Boarding	1 if the alumnus attended boarding school	0.138	0.345
Private	1 if the alumnus attended private school	0.264	0.440
School – Other	1 if the alumnus attended another type of school	0.0179	0.132

SATmath	SAT math score. Scores prior to 1996 are adjusted to reflect recentering of the scoring scale.	695	77.3
SATverbal	SAT verbal score. Scores prior to 1996 are adjusted to reflect recentering of the scoring scale.	694	77.7
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<i>Admissions Office</i>			
<i>“Non-Academic” Ranking</i>			
A	Omitted Category: 1 if the alumnus received the highest non-academic ranking from the admissions office	0.0193	0.138
B	1 if the alumnus received the second highest non-academic ranking from the admissions office	0.594	0.491
C	1 if the alumnus received the third highest non-academic ranking from the admissions office	0.375	0.484
D	1 if the alumnus received the fourth highest non-academic ranking from the admissions office	0.0110	0.104
E	1 if the alumnus received the fifth highest non-academic ranking from the admissions office	-	-
<hr/>			
<i>Admissions Office</i>			
<i>“Academic” Ranking</i>			
A	Omitted Category: 1 if the alumnus received the highest academic ranking from the admissions office	0.137	0.344
B	1 if the alumnus received the second highest academic ranking from the admissions office	0.420	0.494
C	1 if the alumnus received the third highest academic ranking from the admissions office	0.287	0.452
D	1 if the alumnus received the fourth highest academic ranking from the admissions office	0.154	0.361
E	1 if the alumnus received the fifth highest academic ranking from the admissions office	0.00222	0.0470
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Clubsport	1 if the alumnus played on a club team	0.141	0.349
Honors	1 if the alumnus graduated <i>magna, summa, or cum laude</i>	0.455	0.498
GPA	Alumnus’s GPA	3.19	0.457
Greek	1 if the alumnus was a member of a fraternity or sorority	0.723	0.447
Athlete	1 if the alumnus played a varsity sport	0.349	0.477
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<i>Major</i>			
Molbio	Omitted Category: 1 if the alumnus majored in molecular biology	0.0255	0.158
Small Social Science	1 if the alumnus majored in Anthropology, Urban Studies, or Sociology.	0.0199	0.139
English	1 if the alumnus majored in English	0.105	0.306
Economics	1 if the alumnus majored in Economics	0.0845	0.278
Public Policy	1 if the alumnus majored in Public Policy	0.0547	0.227
Political Science	1 if the alumnus majored in Political Science	0.0933	0.291
Psychology	1 if the alumnus majored in Psychology	0.0437	0.204

History	1 if the alumnus majored in History	0.124	0.330
MAE	1 if the alumnus majored in Mechanical and Aerospace Engineering	0.0420	0.201
EE/CS	1 if the alumnus majored in Electrical Engineering or Computer Science	0.0698	0.254
Arch & Civ	1 if the alumnus majored in Architecture or Civil Engineering	0.0766	0.266
Small Humanities	1 if the alumnus majored in Art, Art History, Classics, East Asian Studies, Linguistics, Music, Near Eastern Studies, Philosophy, Religion, or Languages and Literature departments	0.112	0.315
Small Engineering	1 if the alumnus majored in “Engineering”, Operations Research and Financial Engineering, or Chemical Engineering	0.0243	0.154
Small Sciences	1 if the alumnus majored in Applied Mathematics, Astrophysics, Biochemistry, Biology, Chemistry, Ecology and Evolutionary Biology, Geology, Mathematics, Physics, or Statistics	0.125	0.330
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<i>Minor</i>			
No Minor	Omitted Category: 1 if the alumnus received no minor	0.813	0.389
African/African-American Studies	1 if the alumnus received a minor in African or African-American Studies	0.0234	0.151
American Studies	1 if the alumnus received a minor in American Studies	0.0240	0.153
Theater	1 if the alumnus received a minor in Theater	0.0156	0.124
Public Policy	1 if the alumnus received a minor in Public Policy	0.0417	0.200
Other Engineering	1 if the alumnus received a minor in Architecture, Basic Engineering, Bioengineering, Electrical Engineering, Geological Engineering, Management, Materials Sciences, or Robotics.	0.0173	0.131
Other Sciences	1 if the alumnus received a minor in Applied and Computational Mathematics, Biophysics, Cognitive Studies, Environmental Studies, Science in Human Affairs, or Neuroscience.	0.0183	0.134
Other Humanities	1 if the alumnus received a minor in a humanities field	0.0467	0.211
Teaching	1 if the alumnus received a teaching certificate	0.0084	0.0911
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UnivAward	1 if the alumnus received a university service award	0.0140	0.118
GradScholarship	1 if the alumnus received a graduate scholarship from the university	0.0518	0.222
AcadAward	1 if the alumnus received an academic award	0.180	0.384
DeptAward	1 if the alumnus received a department award	0.130	0.337
AthleteAward	1 if the alumnus received an athletic award	0.0334	0.180
MiscAward	1 if the alumnus received a miscellaneous award	0.0151	0.122
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Magazine	1 if the alumnus receives the alumni magazine	0.932	0.252
AC Mailable	1 if the alumnus is on the alumni council mailing list	0.991	0.0963

AG Mailable	1 if the alumnus is on the alumni giving mailing list	0.608	0.488
AG Phonable	1 if the alumnus is on the alumni giving call list	0.873	0.332
No Solicit	1 if the alumnus is on a no-solicit list	0.0745	0.263
Reduce Solicit	1 if the alumnus is on a reduced solicitation list	0.197	0.398
SP Participant	1 if the alumnus was a participant in the senior class gift	0.489	0.500
No Dues	1 if the alumnus has never paid class dues	0.273	0.445
Current Dues	1 if the alumnus is current on class dues in 2009	0.187	0.389
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<i>Post Baccalaureate Education</i>			
No Advanced	Omitted Category: 1 if the alumnus has no advanced degree	0.560	0.496
PhD	1 if the alumnus has a Ph.D. or equivalent degree	0.0768	0.266
Masters	1 if the alumnus has a masters	0.154	0.361
JD	1 if the alumnus has a JD	0.108	0.311
MD/DDS	1 if the alumnus has a medical degree	0.0621	0.241
MBA	1 if the alumnus has an MBA	0.110	0.313
<hr/>			
<i>Field**</i>			
Arts	1 if the alumnus ever worked in the Arts field	0.0709	0.256
Agriculture	1 if the alumnus ever worked in the Agriculture field	0.0027	0.0515
Architecture	1 if the alumnus ever worked in the Architecture field	0.0282	0.165
Pharmaceuticals	1 if the alumnus ever worked in the Pharmaceuticals field	0.0296	0.170
Communications	1 if the alumnus ever worked in the Communications field	0.106	0.307
Consulting	1 if the alumnus ever worked in the Consulting field	0.103	0.304
Education	1 if the alumnus ever worked in the Education field	0.139	0.345
Finance	1 if the alumnus ever worked in the Finance field	0.201	0.401
Health Care (Business/Industry)	1 if the alumnus ever worked in the Health Care field	0.178	0.383
Hospitality	1 if the alumnus ever worked in the Hospitality field	0.0075	0.0863
Information Technology	1 if the alumnus ever worked in the IT field	0.122	0.328
Law	1 if the alumnus ever worked in the Law field	0.192	0.394
Manufacturing	1 if the alumnus ever worked in the Manufacturing field	0.0800	0.272
Retail	1 if the alumnus ever worked in the Retail field	0.0238	0.152
Transportation	1 if the alumnus ever worked in the Transportation field	0.0103	0.101
Federal Government	1 if the alumnus ever worked for the Federal Government	0.0490	0.216
State Government	1 if the alumnus ever worked for a State Government	0.0334	0.179



Foreign Government	1 if the alumnus ever worked for a Foreign Government	0.0039	0.0624
Nongovernmental Organization	1 if the alumnus ever worked in the NGO field	0.0352	0.184
Religion	1 if the alumnus ever worked in the Religion field	0.0102	0.100
Other	1 if the alumnus ever worked in another field	0.315	0.464
Multilateral Organization	1 if the alumnus ever worked in the Multilateral Organization field	0.0025	0.0499
Military	1 if the alumnus ever worked for the Military	0.0077	0.0872
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<i>Occupation**</i>			
Government Worker	1 if the alumnus ever worked as a government worker	0.0108	0.103
Miscellaneous Worker	1 if the alumnus ever worked in some miscellaneous occupation	0.0805	0.272
Physician/Dentist	1 if the alumnus ever worked as a physician or dentist	0.132	0.339
White Collar	1 if the alumnus ever worked in a white collar occupation	0.311	0.463
Attorney	1 if the alumnus ever worked as an attorney	0.274	0.446
Executive	1 if the alumnus ever worked as an executive	0.531	0.499
Academic Worker	1 if the alumnus ever worked as an academic	0.0839	0.277

\*Except where noted, figures are based on 8,120 observations on alumni who graduated between 1982 and 1989. No alumni remaining in this sample received the lowest non-academic rating from the admissions office.

\*\*Based on 6,389 observations with complete information on field and occupation.