

## Dynamic Effects of Charitable Giving in a Ramsey Model

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**Abstract :** This paper studies the dynamic effects of charitable giving in a Ramsey model à la Becker and Foias (1994), such that heterogeneity is reduced to two types of agents: rich and poor. It is assumed that rich show a great concern for poor and enjoy giving. The introduction of charitable giving in this paper is inspired from the notion of Zakat (borrowed from the Islamic Economics) and is defined according to the warm-glow of Andreoni (1990). In this framework, we prove the existence of a steady state where only the patient agent holds capital. Furthermore, we show that local indeterminacy appears. While moderate values of charitable-giving elasticity makes the appearance of endogenous fluctuations due to self-fulfilling expectations more likely, high values of this elasticity stabilizes endogenous fluctuations, by narrowing down the range of parameter values compatible with local indeterminacy and may rule out expectations-driven fluctuations if it exceeds certain threshold. Finally, cycles of period two emerge. However, charitable-giving makes it less likely for these cycles to emerge.

**Keywords :** charitable giving, warm-glow, bifurcations, heterogeneous agents, indeterminacy, self-fulfilling expectations, endogenous fluctuations

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