Abstract: Accounts of induction development suggest that young children’s inferences are based either on object kind knowledge (Gelman & Markman, 1986), or on perceptual similarity (e.g., Sloutsky & Fisher, 2004). However, both accounts suggest that inferences with familiar and newly-learned categories engage a common set of psychological processes (determination of object kind or perceptual similarity). Alternately, young children may perform similarity-based induction with newly-learned categories, but use prior knowledge to make inferences with familiar categories. In this study, children complete two versions of a task in which a property attributed to a target can be extended to a category match or a perceptual match. In one version, items belong to familiar biological categories; in the other, items belong to two novel pseudo-biological categories. Preliminary findings indicate that although Kindergarten-age children learn to accurately categorize the novel items, they make similarity-based inferences with newly-learned categories, and category-consistent inferences with familiar categories.