

Negatively Interdependent Preferences*

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Abstract

We develop a theory of representation of interdependent preferences that reflect the widely acknowledged phenomenon of *keeping up with the Joneses* (i.e. the preferences of the individuals whose well-being depends on their “relative standings” in the society as well as on their material consumption). The principle ingredient of our analysis is the assumption that the individuals desire to occupy a better position than their peers. This is quite a primitive starting point in that it does not give any reference to what is actually regarded as “status” in the society. We call this basic postulate *negative interdependence*, and observe that it has unexpectedly far reaching implications. In particular, combining this assumption with some other basic postulates that are widely used in a number of other branches of the theory of individual choice, one is able to “derive” the famous relative income hypothesis, and in fact, obtain a quite definitive representation of interdependent preferences. Some extensions and applications of our representation theory are also discussed.

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