

Interdependent Preference Formation*

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Abstract

A standard assumption in the economic approach to individual decision making is that people have independent preferences. We study equilibria of the classic common pool resource extraction and public good games when some of the players have negatively *interdependent* preferences (in the sense of Duesenberry) while the remainder are payoff maximizers in the usual sense. It is shown that at any equilibrium, those with interdependent preferences earn strictly higher payoffs than do the payoff maximizers. If the population composition evolves in accordance with any payoff monotonic evolutionary selection dynamics, then all players will have interdependent preferences in the long run. Similar (but weaker) results obtain for some other economically important classes of games in strategic form. The robustness of our findings with respect to other preference formation mechanisms such as myopic and rational socialization is also discussed.

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