

Keeping up with the Jones: environmental impacts of framing effects

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Intertemporal “Jones” effects

- Rabin: “the event of becoming wealthy, not just being wealthy, can often be a major source of satisfaction, and once we get used to the same standard of living , we may, day to day, be roughly as happy as we were when poor” (2002, p. 662)
- Notes that economists should incorporate this consideration in measuring wealth effects of individual and national income growth
- Increases in well-being from increased consumption may not be permanent

Intergenerational Jones effect: Parker 1996

- Brief review of intergenerational altruism models
- “Paternalistic” altruism implies that your sense of well-being depends not only on your consumption but on the consumption levels of others
- “Non-paternalistic” altruism implies that your sense of well-being depends on your utility and the utility of others
- “Intergenerational altruism implies that you care about future generations
- In an overlapping generations model, this implies that the results of competitive economic interactions are the same as a social planner’s optimal plan
- Recall this does not imply a sustainable economy

Parker 1996: Adding a “Jones” effect

- The premise is that an agent’s sense of well-being depends not only on her level of utility, but on her utility relative to her parent’s generation
- In the overlapping generations model, the baseline level of utility is established in the first, or “child” time period.
- In the second, or “parent” time period, the agent chooses her consumption level, and implicitly establishes the baseline utility level for the child

Tradeoffs in the parent's choices:

- Choosing a higher level of present consumption (“standard of living”) has two effects:
- Increases in the agent’s utility due to both the pure benefits of consumption and the benefit of doing better than her parents
- Decreases in the agent’s utility due to the fact that she is diminishing resources available to her children, as well as increasing the consumption hurdle for her children
- First-order conditions illustrate this tradeoff
- The chosen “standard of living” therefore has external impacts on the next generation

(Possibly incorrect) results

- Model set up is the same as Solow, and as we reviewed from Perman
- Model results will differ in the short run from the pure altruism model if the rate of time preference differs from the growth rate of capital.
- I would have expected the degree of altruism to also have an effect
- The time path of consumption declines more quickly than in the pure altruism model
- In the long, long run, models may reach the same steady-state

Proposed extensions

- Remember what class I wrote the paper for
- Find the final version of the paper in my electronic archives
- See if the criteria for sustainability (Hartwick's rule) remains the same in this case
- My specification suffers from the additive problem illustrated by Brekke et al.
- Alternative specification of Jones' effect: make the concavity of the utility function depend on the standard of living effect.
- This implies that small deviations in standard of living have small effects; large deviations matter more

Assignment

- 1) Different societies have different expectations regarding class mobility, and different levels of social stratification. If Jones effects are present, what differences might you expect to see over time in:
 - Relative levels of happiness
 - Rates of change of consumption