

# Status-Seeking Behavior and the Evolution of Income Inequality

Koichi Kawamoto

*Graduate School of Economics, Osaka University  
and JSPS Research Fellow*

## **Abstract**

Using an overlapping generations model with asymmetric households, this paper investigates the implications of status seeking behavior for the evolution of income inequality. Individuals have preferences for their own income relative to the social average. Hence, when the average income rises, an individual's marginal utility of their own income may be increased (*keeping up with the Joneses*, or KUJ), or decreased (*running away from the Joneses*, or RAJ). In the setting with symmetric preferences, we first demonstrate that the direction of the external effects (KUJ or RAJ) is the important factor in determining whether the income inequality is shrinking or expanding over time. The case of asymmetric preferences is also analyzed. If status preferences of a portion of agents exhibit RAJ, then an increase in the strength of status desire of the rests of agents reduces the long-run growth. It is also shown that the sign of the long-run growth-inequality relationship is determined by whether the preferences of the wealthier agents exhibit KUJ or RAJ.

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