

# Revealed Preference and Institutional Constraint

Taro Oishi

Graduate School of Economics, Kyoto University  
Yoshida-honmachi, Sakyou-ku, Kyoto, 606-8501, JAPAN

TEL/FAX: +81 742 23 2743

E-mail: t.oishi@poem.ocn.ne.jp

## Abstract

Revealed preference theory states that we can derive a decision maker's preferences from his or her choice outcomes. This is significant for modern economics because it is based on directly observable choice behaviour, unlike the classical approach, which depends on unobservable preference. Traditional revealed preference theory assumes only one constraint; however, in reality, multiple constraints can simultaneously occur (e.g. budget constraint and institutional constraint). Therefore, we must consider the interrelations among multiple constraints. This paper analyzes the relation between economic constraint and institutional constraint in the context of revealed preference theory. It is shown that the failure of revealed preference could arise from not considering institutional constraint.

Keywords: Revealed Preference Theory; Institutional Constraint; Feasible Alternatives

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