

Utility of Change: Behavior and Welfare

Duesenberry Revisited

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Abstract

This study assumes the instantaneous utility of an individual is a function of the change in his/her consumption, as well as the absolute level, and characterizes the resulting behavior. When an individual has a preference for positive change, he/she tends to postpone his/her consumption until later, causing higher saving in earlier periods. However, the overall shape of the optimal consumption path is largely determined by the initial and terminal conditions, if they exist. The study also investigates the case in which the second-order change in consumption is taken into account.

Further, for several *given* consumption paths, the corresponding lifetime utility levels are compared. Their order differs depending on the functional form.