

Reference-Dependent Fairness Attitudes: An Axiomatic Approach

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Abstract

This paper extends the theory of other-regarding preferences to a decision maker whose choice behaviors are reference-dependent. This paper investigates a decision maker who chooses an allocation between herself and other passive recipients from a menu. The resulting behavior is related to a reference-dependent criterion for “subjective” fairness, which is determined from choice opportunities. Although in most studies on reference-dependent preferences, reference points are given exogenously, decision analysts cannot directly observe reference points for decision-making in general. In addition, reference points can have an important role for decision-making. This paper enriches the domain of preference relations, and presents a utility representation that identifies a reference point endogenously. This paper contributes to the literature of other-regarding preferences by providing an axiomatic foundation for “reference-dependent” attitudes toward fairness. The axiomatic foundation accommodates the existence of a hypothetically unfeasible reference point formed from a menu. This paper captures a broad class of pro-social behaviors as well as reference-dependent preferences. Moreover, this paper uniquely identifies the attitude toward pure altruism, menu-dependent inequality aversion, and reference points, respectively. By the uniqueness result and the enriched domain, we provide a comparative attitude toward reference points in social contexts.

KEYWORDS: Axiomatic Foundation for Behavioral Economics; Subjective Fairness; Inequality Aversion; Other-Regarding Preferences; Reference-Dependent Preferences; Pro-Social Behaviors.

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