# Social Preferences
# Introduction

Summer 26

Niels Boissonnet, Bielefeld

# Other regarding (or social) preferences

- In the standard economic model, people are selfish
- Care only about their own consumption
- Means that they do not exhibit any
  - Altruism
  - Sense of fairness
  - Reciprocity/Spite
  - Aversion to inequality
- This seems like a very restrictive assumption

# Some Thought Experiments

- If you had \$100 to distribute at an orphanage with 10 orphans, would you prefer that one orphan got \$100 or all 10 got \$10?
- Would you quit your job if you found out that the guy next to you was being paid 20% more for the same job?
- Would you pay money to punish someone who had swindled you out of your life savings, even if you would not recover any of that money?

# Social and political implications

**David Hume**

*"Justice is the main pillar that upholds the whole edifice... if it is removed... society must fall into atoms."*

**Adam Smith**

*"Society... cannot subsist among those who are at all times ready to hurt and injure one another."*

*"The sense of justice... is the main pillar that upholds the whole edifice."*

**Edmund Burke**

*"Manners are of more importance than laws... they give their whole form and colour to our lives."*

**Jean-Jacques Rousseau**

*"The social order is a sacred right which is the basis of all other rights."*

# Important philosophical implication

**Serge-Christophe Kolm**

*"Thomas Hobbes told us that human societies are trapped in a dreadful dilemma. Either human life is a war of all against all, or we should submit to a dictator imposing his law and order. However, most societies are neither general aggression nor a police state. People use locks and there is some police, but there is not only that. Hobbes overlooked one possible form of conduct: voluntary restraint from harming others and wilful respect for their person and property. Yet, people would not – or could not – so respect others if they were not so respected themselves (and respectful people deserve respect). Hence, free respect rests on this extended reciprocity. This basic reciprocity is indispensable in a peaceful and free large society."*

# Other-Regarding Behavior in the Field

- **Collective action**
  - Mass demonstrations (e.g. China, Eastern Europe)
- **Public policy and institutions**
  - Tax morale depends on perceived fairness (Alm et al., 1995)
  - Support for redistribution shaped by perceived deservingness Fong et al., 2006
  - Compliance with law depends on procedural fairness (Tyler, 1988)
- **Labor markets and firms**
  - Firms rarely employ underbidders (Agell and Lundborg, 1995)
  - Downward wage rigidity (Agell and Lundborg, 1995; Bewley, 2007; Campbell and Kamlani, 1997)
  - Wage cuts can reduce quality and performance (Krueger and Mas, 2004)

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Economic behavior is strongly shaped by **fairness perceptions and social comparisons**, not only by material incentives.

# Why Firms Do Not Employ Underbidders

- External applicants offering lower wages are common (Agell and Lundborg, 1995)
- Focus: firms that **encountered but did not hire** underbidders
- Key question: **Why reject cheaper labor?**

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**Main finding:** The dominant reason is **internal fairness and wage policy concerns**, not technical constraints.

| **Reason** | **Freq.** | **%** |
|---|---|---|
| Internal inequity / violates wage policy | 18 | 38.3 |
| Inferior skills of applicant | 16 | 34.0 |
| No vacancies / no suitable tasks | 5 | 10.6 |
| Collective wage agreement constraints | 5 | 10.6 |
| Other reasons | 3 | 6.5 |
| Total | 47 | 100 |

# This course

The aim of this course is to provide a grounding in the main areas of study on social preferences

- altruism
- inequity aversion
- fairness
- cooperation

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For each area we will study three things:

1. The evidence that indicates that the standard economic model is missing some important behavior
2. The models that have been developed to capture these behaviors
3. Further tests designed to discriminate between the proposed models

# Organization

All lecture outlines, including main references, are in the "Overview"

This course

- is part of the MA module Behavioral Economics
- you find all lecture notes online in the Lernraum

Exam Short presentations (40-45 minutes) and essays (less than 10 pages)

- teams of up to two students
- discuss results from theoretical or experimental studies extending the material covered in class
- before the last week of the term (before July 15)

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Contact

- Please send comments and question to niels.boissonnet@uni-bielefeld.de

# References

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# References I


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