

Parametric Estimation of Social Preference Models

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ABSTRACT

We analyse data on dictator game giving from an experiment in which the price of giving is varied. We use this data set to estimate a number of different models, each based on a utility function with own-payoff and other's payoff as arguments. We are particularly interested in the well-known Fehr-Schmidt utility function. A fundamental problem with this utility function is non-differentiability, which leads to the solution to the constrained optimisation problem being either one of extreme egalitarianism or extreme selfishness. We overcome this problem by introducing a parameter to the utility function that allows strict quasi-concavity, and therefore allows non-corner solutions. The Fehr-Schmidt function is a limiting case of our extended function. We estimate the extended model by MSL, allowing between-subject heterogeneity in both of the Fehr-Schmidt parameters (aversion to disadvantageous and advantageous inequality). We find substantial heterogeneity in both of these.