Noncooperative household consumption with caring

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Abstract

We present a household consumption model that accounts for caring household members, while allowing for noncooperative behavior in decisions on public goods. The intrahousehold consumption outcome critically depends on the degree of caring between the household members. By varying the degree of intrahousehold caring, the model encompasses a whole continuum of household consumption models that are situated between the fully cooperative model and the noncooperative model without caring. This feature is used to define a measure for the degree of cooperation within the household. We also establish a dual characterization of our noncooperative model with caring preferences: we show that the model is dually equivalent to a noncooperative model with non-caring preferences that is characterized by intrahousehold transfers. Finally, following a revealed preference approach, we derive testable implications of the model for empirical data. We show the practical usefulness of our model by an application to panel data on two-person household consumption drawn from the Russia Longitudinal Monitoring Survey. We find that the degree of cooperation varies considerably across couples. We relate this variation to observable household characteristics, and find that older couples are generally more cooperative.

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