Altruism And Social Preferences

The existence of altruism makes individuals often engage in activity or behavior that are costly for themselves while beneficial for others (Benabou & Tirole, 2006a). As an example, Kahneman, Knetsch, & Thaler (1986a) showed that in a dictator game, subjects who have the ability to allocate money (dictators) between themselves and another passive recipient tend to give a non-trivial share to their recipient counterparts. Such finding is contradictory to standard game theoretic solution where purely selfish behavior should deter dictators to give any money in their possession to be transferred to the recipients. As suggested by Becker (1976), one might consider the explanation of pure altruism where individuals engage in such altruistic behavior due to their genuine concern on others' well-being. Whereas Kahneman, et al. (1986b) argued that such incidences are due to individuals' concern on fairness. Thus, the notion of individuals to be not selfish as opposed to what has long been presumed in standard economic theory, is steadily being incorporated in economic models of fairness and social preferences through different perspectives (Becker, 1976; Kahneman et al, 1986b; Andreoni, 1990; Fehr & Schmidt, 1999; Bolton & Ockenfels, 2000; Andreoni & Miller, 2002; Charness & Rabin, 2002; Benabou & Tirole, 2006; Konow, 2010).

Fehr & Schmidt (1999) proposed a model in which individuals engage in altruistic behavior due to their aversion to unequal outcomes with others. Therefore, they argued that individual's utility is not only determined by each individual's own payoffs but also their relative material payoffs, or in other words, their social preferences. In this model, people are argued to neither like to have more or less than others, although they assumed that people to dislike disadvantageous inequality more than advantageous one. Nevertheless, this theory has been shown to be one of the underlying reasons as to why people act prosocially, where higher degree of inequality aversion for wealthy individuals generates more voluntary giving (Derin-Gure & Uler, 2010).

Another perspective by Andreoni & Miller (2002) tried to rationalize altruism in economic model using the axiom of revealed preferences. They thus showed that individuals in experimental setting possessed a consistent preference with quasi-concave utility function, meaning that individuals gain utility from their altruistic behavior. This finding shed a light on the rationality of altruism, and moreover, showed that individuals' preference on altruism is heterogenous and shown to not only be defined by individuals' inequality aversion.

As opposed to purely driven by individual's genuine altruism, Andreoni (1990) argued that altruistic behavior is shown to have some pure egoistic motivation that underlies it, in which he termed it as warm-glow motivation. As an example, Benabou & Tirole (2006b) suggested that individuals' prosocial behavior is often driven by individual's image concern to be perceived as 'good' human beings, so their acquired utility of giving decisions can be generated from the act of giving itself instead of purely from the increased well-being of others that are affected by the act. Thus, as a support for the mentioned theory, Chowdhury & Jeon (2014) showed in their standard dictator game experiment, dictators seemed to give more when they are given higher show-up incentives. In addition, Crumpler & Grossman (2008) tested the proportion of warm-glow motivation on giving decisions, and found that such motivation solely give a substantial magnitude in giving behavior in addition to pure altruism. The aforementioned findings seemed to confirm the proposition of Andreoni (1990) in which individuals altruistic behavior is driven by

impure altruism where the interplay between pure altruism and warm-glow motivation generates a substantial impact on giving behavior.