

REVEALED PRICE PREFERENCE

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ABSTRACT

In this paper, we design a revealed preference test to account for expenditures on goods that are not observed in a data set. This is in contrast to the classic test of the Generalized Axiom of Revealed Preference (GARP) which assumes that the preferences for the goods in the data are separable or, that the income is the same as the observed expenditure. In our model, since total income is unobserved, revealed preference is defined over observed price vectors (as opposed to observed consumption bundles). We derive a condition called the Generalized Axiom of Price Preference (GAPP) which is necessary and sufficient for a given data set to be rationalized by our model. The similarity of GAPP to GARP allows us to extend tests for stochastic rationalizability to our setting. We test the stochastic version of our model on UK family expenditure data.

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