

**Aspirations and growth:
a model where the income of others acts as a reference point**

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We study an OLG model in which the average income of the society acts as a reference point for the agents' utility. To model this we use the functional form developed in behavioural economics to study reference-dependence: prospect theory. We then assume that: 1) the utility function is convex in an interval before the reference point; 2) the utility function is not differentiable at the reference point, and it is steeper below than above the reference point. We argue that this reference-dependence causes the economy to admit multiple equilibria, and we show that in any of these equilibria in finite time the wealth distribution will become, and remain, either of "missing class" or of perfect equality. We then study growth rates and show that, if we look at the equilibria with the highest growth, then the society that grows the most is the one that starts with perfect equality. If we look at the equilibria with the lowest growth for each economy, however, then the society with a small amount of initial inequality is the one that grows (strictly) the most, while a society with perfect equality is the one that grows the least. All of these growth rates are weakly higher than the growth rate of a corresponding economy without reference-dependence.