

# The Role of Other-Regarding Preferences in Competitive Markets

by

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Abstract: The paper investigates competitive market outcomes in economies where agents have other-regarding preferences. We first generalize the notion of other regarding preferences to a multi-goods framework. Within such a framework, other regarding preferences might refer to the actual welfare of the others as well as to their consumption opportunities. Allowing for both types of concerns, we identify a separability condition that is necessary and sufficient for one's own demand to be independent of the allocations and characteristics of other agents in the economy. When this condition holds, it is not possible to identify other-regarding preferences from market behavior: agents behave as if they had classical preferences that depend only on own consumption in competitive equilibrium. We then discuss the extent to which the Fundamental Welfare Theorems extend to economies with other-regarding preferences. While the competitive equilibrium is generally inefficient, we derive conditions under which the competitive equilibrium is efficient.