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“Keeping Up with the Joneses Preferences: Asset Pricing Considerations”

Abstract:
Behavioral finance is slowly becoming part of mainstream research in finance. However, most of the research so far has focused on documenting empirical facts. The first attempt to formalization was the path-breaking prospect theory. Regrettably, most of the subsequent theoretical work has focused on prospect theory and versions of it, like rank-dependent utility. We will discuss a different set of results loosely referred to as "Keeping Up with the Joneses Preferences" or relative wealth concerns. We will document some of the empirical findings of this area of research in dire need of good theoretical models.