



Universität
Basel

Research Project

Dynamic Policy in the Presence of Social Norms

Project funded by own resources

Project title Dynamic Policy in the Presence of Social Norms

Principal Investigator(s) [Hintermann, Beat](#) ;

Organisation / Research unit

Departement Wirtschaftswissenschaften / Public Economics / Public Finance (Hintermann)

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Status Completed

Individuals' actions may depend on prevailing social norms. We investigate how optimal policy should exploit the underlying social dynamics using a dynamic model of prosocial action in which conformist consumers choose whether to engage in some prosocial activity in every period. Individual behavior is not observed, but the overall participation rate in the previous period is common knowledge. We derive the conditions under which multiple equilibria exist and show that the optimal subsidy exceeds the marginal social benefit of the prosocial action as it additionally includes the social marginal value of participation. We find that the optimal subsidy can decrease before reaching the steady state-level and may follow a nonlinear path initially. Our model thus provides a rationale for introductory subsidies from a behavioral perspective.

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ID	Kreditinhaber	Kooperationspartner	Institution	Laufzeit - von	Laufzeit - bis
978089	Hintermann, Beat	Lange, Andreas, Professor for Public Finance	University of Hamburg	01.01.2010	31.12.2020