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# What do Income Tests tell us about the Gap between WTA and WTP for Public Goods?

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## Abstract

Theory relates the gap between WTA (willingness to accept compensation) and WTP (willingness to pay) to the income elasticity of WTP. It has been suggested that empirical estimates of the income elasticity of WTP can therefore be used to test whether an observed gap between WTA and WTP is consistent with rational behavior. We examine this issue for the case of non-market public goods. We identify the theoretically appropriate tests of income sensitivity, and examine conditions for valid income sensitivity tests. We show that income tests may provide false signals in common settings, indicating an inconsistency where none exists.

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