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Interdependent Preferences and Endogenous Reciprocity

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Highlights

- We use an indirect approach to formally examine the evolutionary stability of interdependent preferences when players randomly engage in pairwise interactions.
- We also explore the stability of reciprocity and reciprocal preferences.
- We study how individuals equipped with intrinsic preferences such as altruism, selfishness or spitefulness adjust their behavior depending on who they interact with.
- The key aspect of our method is that behavioral preferences are choice variables that optimally evolve, accounting for strategic interaction.
- Our model predicts that in a specific economic framework characterized by negative externalities and strategic substitutes, there is a continuum of evolutionary stable interdependent preference profiles: At least one player behaves spitefully, and at most one acts selfishly.
- The emergence of altruism as an evolutionarily stable preference crucially depends on how large the support for preferences is.
- When players have reciprocal preferences, altruism might arise even in meetings where one player is intrinsically spiteful, but not necessarily from the intrinsically altruistic player.

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