

Climbing Out of Poverty: Long-Term Decisions under Income Stress

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Abstract: This paper develops a simple theoretical framework for understanding why the poor might make very different decisions than the non-poor despite having the same essential preferences. The key modeling idea is to separate the space of goods into things that are valued both contemporaneously and in anticipation, and things that are only valued contemporaneously. The relative concavity of the utility functions over these two sets of goods determines how the behavior of the poor diverges from that of the non-poor. The model helps explain a number of anomalies in the observed behavior of the poor.