

On Depth and Retrospect: “I Forget, and Forgive – but I Discount”

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ABSTRACT

The discounting of future felicity flows transposes to the inter-temporal optimisation context the assumption of interest-bearing wealth or savings. The validity of the hypothesis has been challenged by several empirical (ir)regularities and by the theoretical implications for human decision processing. In this article, we explore the modifications induced by generalising the typical welfare function in order to accommodate such retrospective influences. The idea is simple – and can be thought inspired in felicity functions encompassing habit formation: to allow for accumulated welfare – of hypothetically “compounded” but also depreciating past-to-current felicity streams – to affect the periodic utility function – which therefore enjoy some durable good properties. Sensitivity of the Ramsey optimal path to the new formulation is also inspected.

JEL Classification: D90, E40, E43, G00, C61, O40, L22.

Keywords: Time discount, time preference, interest, retrospect theory, durable goods.

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