

## CHAPTER 1

### INTRODUCTION

#### 1.1 Statement of the Problem

The concept of household commodities, which was pioneered by Becker (1965), has greatly expanded the boundaries of economics. It enables economists to analyze behaviors traditionally deemed beyond their reach: fertility, education, marriage and divorce, crime, or even religion participation. Its central feature is that a family is viewed as a quasi-firm engaged in the production of “household commodities”.

The commodities may be as concrete as almsgiving, dining, shopping, and dating or as abstract as love, health, piano performance, and religious appreciation. Although we cannot quantify the latter, we may usefully speak of household “producing” these commodities by combining purchased inputs, such as wedding rings, nutritious foods, well-conditioned Steinway pianos, and dharma CD’s, with labors and their own skills.

Productive skills enter analyses of household production because people’s skills critically affect the quality and quantity of what they produce. For example, concert pianists need performance skills, or religious people use their wisdom whenever they manage secular activities (such as alcohol drinking, or shopping). These productivity enhancing skills derive from native ability and investment process (via education and practice). Piano-playing skills provide an example of each source: innate ability may endow one with perfect pitch or musical talent; practice helps one to improve playing technique as well as sight-reading.

Specific practice may be acquired through other activity (or commodity). For example, to produce “piano performance” commodity, one needs a piano as a market input, time to practice the specific piece, and piano-playing skills. It is widely accepted that the skills cannot be developed by just brute force playing on that piece.

To raise the skills, one has to allocate their time to other activity (or commodity) such as the scale practice, or sight-reading. Likewise, religious people never develop their “wisdom” skill by just participating in the secular commodity (such as alcohol drinking, or dinner dating). To boost the “wisdom” skill, they need “religious practice” commodity in order to, for example, become more familiar with religious doctrines.

A worth-discussing question arises with some observed patterns regarding the reason why one with high innate skills of an activity always concentrates on improving his skills by dedicating their resources to a practice in other related activities. For example, most of the students in outstanding music institutes are always musical geniuses who struggle to improve their playing skill for the concert. Similarly, righteous people always participate more in religion to develop their wisdom to manage their secular lives. The latter phenomenon may be explained by our rational model of behavior.

This study rests upon the concepts of household production and aims to model rational behavior over time that includes “wisdom skill.” The “wisdom” may be considered a productivity enhancing skill that is defined as familiarity with religious doctrines or ability to understand the real truth of nature. It is also classified as a type of “capital” because it functions in a productive process by turning market inputs into non-market commodity, which is called “secular commodity”. Dining, dating, and shopping exemplify secular commodity and Japanese dishes, movie tickets, and name brand clothes are examples of the market input of the mentioned commodities respectively. With more “wisdom capital”, a small piece of salmon, a pair of half price ticket, or a pair of discount jeans yields higher quality and quantities of secular production.

Another reason why “wisdom” is categorized as a capital is because it is accumulated through a process of investment. In this model, the “wisdom capital” is assumed to derive from two sources: innate ability (or endowment) and specific training. In this study, it is assumed that 1) the investment returns on “wisdom capital” are not in terms of the raising market value of time but of the higher future productivity, and that 2) the specific training is *not* acquired from the investment in

the secular commodity. On the other hand, wisdom capital is accumulated by investing scarce resources in cross commodity, which is “religious practice”.

This model aims originally to explain the positive relationships between the level of initial endowed “wisdom capital” and the degree of religion practice. More initial endowed “wisdom capital” raises marginal benefits of investment in future capital in terms of higher future utility. This encourages households to allocate more resources at the present to religious practice and less to the life-time market goods and/or service. Therefore, total life-time use of the secular input can be abated by “wisdom capital”.

A point of departure from Becker’s model of rational behavior lies in differences in explanations of the positive relationships between the level of initial endowed “wisdom capital” and the degree of religion practice. According to Becker’s, initial capital takes part in boosting the current marginal product of religious commodity, consequently lowering its shadow price and leading to more of its production. On the other hand, based on the model of this study, initial capital does not affect the productivity of religious production. Furthermore, the positive relationships are driven significantly by the technology in capital transition, which raises the future utility.

## **1.2 Objective of the Study**

This study aims to generate a dynamic model of the consumption behavior which non-market “wisdom capital stock” is taken into account. An agent with “wisdom capital” stock rationally weighs costs and benefits to maximize their intertemporal utility subject to life-time full wealth constraint by choosing how intensively they will allocate scarce resource to produce and consume two non-market commodities: religious and secular one.

Religious commodity is defined as the non-market *product* of “religious practice” activity which can be viewed as a productive process. For each period, the religious commodity requires time as a scarce resource for the process of production.

Apart from religious activities, for the purpose of formal analysis all other commodities may be viewed as an aggregate “secular” activity which requires a purchased market input and endowed wisdom stock to manage the production. Over periods, wisdom stock is accumulated via the investment in earlier religion time and capital.

The objective of the model is to explain why rational forward-looking households with higher innate “wisdom” tend to participate more of religious activity and their dynamic demand for secular input becomes lower relative to that of lower-wisdom households. Furthermore, the effect of exogenous parameters, such as wage rate, would be investigated.