Connecting Incentives, Preferences and Monotonicity Criteria.

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Abstract

Monotonicity criteria have long being used by economists to identify causal effects in choice models of multiple treatments and categorical instrumental variables. It imposes restrictions on the counterfactual choices that heterogenous agents may take as the instrument varies. Economists have also use revealed preference analysis to model the choice behavior of economic agents. This paper investigates the connection between revealed preferences and monotonicity criteria. I use a simple choice model in which instruments induce choice incentives that are combined with choice axioms to generate monotonicity criteria. Two patterns of IV-induced incentives are of particular interest: *Monotonic Incentives* imply the unordered monotonicity condition of Heckman and Pinto (2017a) while *Supermodular* incentives imply the ordered monotonicity of Imbens and Angrist (1994).
Keywords: Choice Axioms, Revealed Preferences, Causal Inference, Monotonicity, Instrumental Variables.
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