

Willpower and the Optimal Control of Visceral Urges*

Emre Ozdenoren[†] Stephen Salant[†] Dan Silverman[†]

First Version: October, 2004

This Version: May, 2006

Abstract

Common intuition and experimental psychology suggest that the ability to self-regulate, willpower, is a depletable resource. We investigate the behavior of an agent who optimally consumes a cake (or paycheck or workload) over time and who recognizes that restraining his consumption too much would exhaust his willpower and leave him unable to manage his consumption. Unlike prior models of self-control, a model with willpower depletion can explain the increasing consumption sequences observable in high frequency data (and corresponding laboratory findings), the apparent links between unrelated self-control behaviors, and the altered economic behavior following imposition of cognitive loads. At the same time, willpower depletion provides an alternative explanation for a taste for commitment, intertemporal preference reversals, and procrastination. Accounting for willpower depletion thus provides a more unified theory of time preference. It also provides an explanation for anomalous *intra*temporal behaviors such as low correlations between health-related activities.

*We thank Roy Baumeister, Gérard Gaudet and Miles Kimball for their important contributions to this paper. We also thank Roland Benabou, Yoram Halevy, Robert Mendelsohn, Joel Sobel, Kathleen Vohs, Itzhak Zilcha, and participants in seminars at IAS/Princeton University, the University of Michigan, University of Milano-Bicocca, and the University of Montreal for their helpful comments on a previous draft. Silverman gratefully acknowledges the support and hospitality of the Institute for Advanced Study.

[†]Department of Economics, University of Michigan, 611 Tappan St., Ann Arbor, MI 48109-1220.

1 Introduction

Patterns of intertemporal choice that are common but inconsistent with standard models have inspired a growing literature on the economics of self-control. The human tendencies to seek self-commitment, to seize small immediate rewards despite their important future costs, and to procrastinate have motivated a number of studies of quasi-hyperbolic time discounting (e.g., Laibson 1997, O’Donoghue and Rabin, 1999), temptation costs (e.g., Gul and Pesendorfer 2001, 2004), and conflicts between “dual selves” (e.g., Thaler and Shefrin, 1988; Fudenberg and Levine, 2006). Such models of self control are consistent with a great deal of experimental evidence, and have been fruitfully applied to a number of economic problems ranging from portfolio choice to labor supply to health investment.

While capturing important aspects of both experimental and field data, these economic models of self control cannot explain three other “anomalous” features of intertemporal choices: (1) people behave differently if they first engage in cognitively demanding tasks (e.g. pilots making a second demanding landing of the day are known to be more prone to accident; see Wald, 2006); (2) agents sometimes exhibit *negative* time preference (e.g. they consume at an increasing rate, “save the best for last” when consuming and “get the hard part out of the way ” when working); (3) people sometimes behave as if completely unrelated activities requiring self-control are linked (e.g. they do not resist smoking or overeating when trying to quit drinking or when starting a new exercise regime).

In this paper, we present a tractable model of self control that explains each of these three anomalies. At the same time, our model provides an alternative explanation for prominent anomalies addressed by prior models of self-control. We accomplish this by taking into account a single cognitive constraint that is both intuitively appealing and consistent with a large literature in experimental psychology: exerting self control depletes a fungible but scarce cognitive resource, “willpower.”

Anecdotes consistent with the notion of depletable willpower are common. Many who resist unhealthy foods and fruitless websurfing all day and who might prefer to go to bed early after a light dinner find themselves at the end of the day gorging on junk food and unable to stop watching television. More generally, dieters can often maintain their discipline for short periods but find such self-restraint unsustainable over the long term. Profligate spending or drinking to excess is frequently the “reward” for a hard week at work.

Experimental psychology (Baumeister *et al.*, 1994; Baumeister and Vohs, 2003) has gone beyond these anecdotes and has demonstrated in a variety of settings that individuals depleted by prior acts of self-restraint later behave as though they have less capacity for self-control. The experiments

in this literature typically have two phases. Every subject in the experiment participates in the second phase but only a subset, randomly selected, participates in the first; the remainder is used as the control group. In the first phase, subjects are asked to perform a task that is meant to deplete their willpower; in the second phase, their endurance in an entirely unrelated activity also requiring self control is measured.¹ Subjects who participated in the first phase display substantially less endurance in the second phase. This apparent link between the exercise of self-control in one activity and later self-discipline in another activity has been observed repeatedly, with many different manipulations and measures of self-regulation (Baumeister and Vohs, 2003, Vohs and Faber, 2004). Two recent experiments (Vohs and Faber, 2004 and Dewitte et al., 2005) show that willpower depletion and prior cognitive loads affect subsequent *economic* behavior.² While individual experiments have weaknesses and leave open questions about the nature of willpower depletion and its empirical relevance, we regard the collection of these experimental findings as reinforcing the intuitive notion of willpower as a depletable cognitive resource.

In this paper, we study the effects of incorporating willpower depletion in the simplest model of intertemporal decision-making: the canonical cake-eating problem. In our formulation, moderating consumption requires willpower; the greater restraint the consumer exercises, the faster his willpower erodes. In addition, consistent both with introspection and experimenter observation (Baumeister *et al.*, 1994), we assume that a given level of consumption depletes willpower at a (weakly) faster rate when a person’s reserves of willpower are lower. Finally, we assume that consuming nothing requires no self-restraint when no cake remains.

Ours is the first formal model in the economics literature to take explicit account of willpower depletion. Because we do so in a simple and familiar economic environment, we are able to clarify what phenomena willpower depletion can explain.

Willpower depletion provides an alternative explanation for a preference for commitment, ap-

¹For example, in the first phase subjects have been asked not to eat tempting foods, not to drink liquids when thirsty, or to take a so-called “Stroop test.” In each round of such a test, the name of a color (e.g. “green”) is written in ink of a different color and the respondent is asked to report the color of the ink. A respondent’s accuracy and speed at the test is thought to depend on his ability to “inhibit” or control his “automatic” response which is to read the word rather than identify the color of the ink in which it is written.

²In Vohs and Faber (2004), subjects who were willpower-depleted purchased a wider assortment of merchandise and spent a larger portion of their experimental earnings than the control group. The experiments of Dewitte et al. should be distinguished from prior cognitive-load experiments that showed the effects of such loads on *contemporaneous* intertemporal choices. In these earlier studies, respondents were more likely to choose cake over fruit (Shiv and Fedorikin, 1999) or a smaller earlier reward over a larger later one (Hinson, et al. 2003) when *simultaneously* asked to perform a memory task. In contrast, Dewitte et al. (2005) found that even when such memory tasks were performed prior to the consumption decision, they affected the choice of how much candy to eat.

parent time-inconsistencies, and profound procrastination—the hallmarks of self-control models including temptation cost, dual-selves, and hyperbolic discounting. As in prior models of self-control, an agent in our model would strictly prefer to have his “cake” or paycheck doled out to him by a savings club. For if the entire amount were available, resisting spending it would deplete his scarce willpower. Optimal behavior when willpower is depletable also provides an alternative explanation for apparent intertemporal preference reversals.³ When asked to choose between a smaller (consumption) reward that will arrive immediately and a larger one that would arrive after some delay, an agent with limited willpower may choose the former. The willpower cost (measured in utility terms) of resisting the immediate, smaller reward may outweigh the utility gain from receiving the later, larger reward. However, if asked to choose now one of these same two options set off in the temporal distance, the consumer may choose the later, larger prize. The choice now of a prize to be delivered in the future enables the consumer to commit irreversibly to an option. He then prefers the later, larger prize since willpower ceases to be required to resist the earlier, smaller prize. A willpower-constrained agent may therefore appear to behave in a time-inconsistent manner. Optimal behavior in our model also provides an alternative explanation for procrastination. Suppose the agent must expend a fixed amount of time to complete an assignment before a certain deadline, but can allocate the remaining leisure time optimally.⁴ If the agent is willpower constrained, he may enjoy leisure early in the program, and then work non-stop until the deadline. While doing marginally more work early on and enjoying marginally more leisure later would strictly increase his utility, he lacks the willpower to implement this alternative program. Working harder in the first phase would require more willpower but so would restraining himself from squandering the positive stock of leisure he would carry into the second phase.

Our model also explains anomalies inconsistent with other models of self-control. Prior cognitive loads affect the subsequent path of consumption by reducing the initial stock of willpower. Moreover, an agent in our model may increase his consumption over time because exercising self control later, when his stock of willpower is reduced, may require more willpower than exercising the same self control earlier. Our model also explains linkages between seemingly unrelated activities, since the same cognitive resource is used to exercise self control in different activities.

³While experimental evidence consistent with declining rates of time discount is extensive, it should be noted that the interpretation of these experiments as supporting (quasi-) hyperbolic discounting is not uncontroversial. See, e.g., Rubinstein (2003), Read (2003), and Benhabib, et al.(2006), for alternative interpretations.

⁴This is exactly the setup Fischer (2001) used to investigate procrastination but we have introduced a willpower depletion constraint. Without it, Fischer finds that the discount factor required to explain procrastination in a model where geometrically-discounted, additively-separable utility is maximized is unrealistic; our model generates procrastination (zero consumption of leisure for the final phase of the planning horizon) for any discount rate.

This linkage has important implications for consumption behavior. One might anticipate that perfect smoothing of consumption would always occur if the agent had sufficient willpower. While this result always holds in our model if restraining consumption is the only use of willpower, it almost never obtains if willpower has alternative uses. Suppose that willpower can be used to implement intertemporal saving (cake-eating) as well as some other activities (e.g. cramming for exams, training for musical performances, maintaining a diet, or preparing an important presentation) that require self-discipline. We show that the optimal allocation almost never results in consumption smoothing over the entire horizon, even when it is feasible. Intuitively, consumption smoothing over the finite horizon is optimal only if there is so much willpower that allocating any more toward regulating this intertemporal activity would not increase the utility which can be achieved from it. But allocating so much willpower to the intertemporal consumption can never be optimal provided that redirecting more toward some other activity will strictly increase the utility obtained in that activity.

In reality, there are always alternative uses of willpower, and our formal analysis of this case yields some surprising implications. Behavioral differences between rich and poor people sometimes attributed to differences in self-control skills may reflect wealth differences and nothing more. Consider how two agents, who differ only in the size of their initial cakes (interpreted as stocks of either wealth or leisure), would choose to consume in the first phase if they recognize that utility from the alternative activity depends on the amount of willpower that is left over for that activity. Assume they have the same initial willpower, the same self-control technology, and the same preferences. We provide an example where the rich agent chooses to smooth his consumption more than his poorer counterpart even though the richer agent invests more of his willpower in alternative activities such as market work or exercise regimes. We thus illustrate how the poor may appear to exert less self-discipline (have lower rates of saving, higher rates of obesity), not because they have different preferences, willpower endowments or self-discipline technology but merely because they have fewer material resources.⁵

The linkage between activities depleting a common cognitive resource may explain other behaviors besides the intertemporal ones on which we have focussed. To emphasize this, we conclude by showing how willpower scarcity can explain an *intratemporal* puzzle as well. The standard

⁵Allowing willpower to have alternative uses has other implications. For example, using the typical two-stage protocol, Muraven (1998) finds that a given first-stage depletion activity has less of an effect on second stage self-control when subjects are paid more for exerting that latter control. This finding is consistent with a model where willpower has alternative uses. If we fix the marginal value of willpower remaining after the experiment, and increase the incentive for exerting self-control in the second phase activity, then the agent will optimally reallocate willpower to that second phase self-control activity and leave less in reserve for self-regulation after the experiment.

health investment model predicts that agents who place a relatively high value on life should simultaneously control more tightly *all* activities adversely affecting health (drinking, smoking, etc.). But Cutler and Glaeser (2005) point out that the correlation between such activities is in fact extremely small. Moreover, they show that in the standard model the only way this correlation can be low is if there is little variation in both time discounting and the value of life in the population, which seems implausible. However, people with scarce willpower may find tightening control of two health-related activities at the same time impossible (or suboptimal).⁶ We show that if the population consists of a mixture of people with different values of life and endowments of willpower, the optimal allocation of self-control can explain the observed negligible correlation between two health-related activities despite a large variance in the value of life.

We proceed as follows. In the next section we present our model and interpret its first-order conditions. In section 3 we describe qualitative properties of the optimal consumption program with and without an alternative use for willpower. In section 4 we argue that a theory of depletable willpower offers a more unified theory of time preference and discuss the advantages of our formulation over existing models of self-control. That discussion includes a summary of evidence of increasing consumption paths from high frequency field data. In section 5 we discuss two extensions of our intertemporal model: first, to the case where the exercise of self control depletes willpower over the short term but builds it over the longer term and, second, to the case where an individual is uncertain about the size of his willpower stock. In section 6 we explain how the anomalous low correlation in health-related activities discovered by Cutler and Glaeser (2005) may be attributable to variation in the willpower endowments in the population. In section 7 we conclude.

2 Consumption with Limited Willpower

In the canonical cake-eating problem in continuous time, a consumer maximizes his discounted utility by choosing his consumption path $c(t)$ over a fixed horizon ($t \in [0, T]$). We denote the size of the cake at time t as $R(t)$ and assume that $R(0)$ is given. The rate of decline in the cake at t (denoted $-\dot{R}(t)$) is, therefore, $c(t)$.

We depart from the canonical model by assuming that the agent is endowed with a given stock of willpower $W(0)$ and depletes it when he restrains his consumption. We denote the rate of willpower

⁶The difficulty of controlling multiple health-related activities is also recognized by health professionals. For example American Diabetes Association gives the following helpful advice: “Pick some changes that you want to do the most, and that will make the biggest impact. Perhaps choose one change in your eating habits and another in activity. Remember; don’t try to change everything at once.” See, <http://www.diabetes.org/weightloss-and-exercise/weightloss-small-steps.jspS>

depletion as $f(W(t), c(t))$. Allowing the rate of depletion to depend not merely on the level of self restraint but on the remaining willpower reserves captures the experimental observation that the same restraint depletes willpower at a faster rate when one’s willpower reserves are lower. Because neither experiments nor introspection suggests the sign of the relationship, we assume that $f(\cdot)$ is not affected by the stock of cake remaining ($R(t)$), provided some remains.⁷

An important feature of willpower depletion is that as long as even a morsel of cake remains, one has to use willpower to consume nothing; but consuming nothing requires no willpower when there is nothing left to eat. We refer to this feature as the “fundamental discontinuity of willpower depletion” and take account of it in our formulation.⁸

In anticipation of the analysis in Section 3, we assume that any willpower remaining after the conclusion of intertemporal consumption is used in an alternative activity and generates additional utility $m(\cdot)$.

Since the agent is not permitted to choose a consumption path which results in negative willpower, the willpower constraint may preclude the path which exhausts the cake while equalizing discounted marginal utility up through T . We refer to that path, which is the hallmark of the canonical model, as “perfect smoothing.” Even when perfect smoothing is feasible, the agent may choose to forgo it. Our goal throughout is to investigate how the presence of the willpower constraint alters the agent’s chosen consumption plan relative to the predictions of the canonical model.

2.1 Formulation of the Model

The agent chooses $c(t) \geq 0$ to maximize

$$\begin{aligned}
 V(0) &= \int_0^T e^{-\rho t} U[c(t)] dt + e^{-\rho T} m(W(T)) \\
 \text{subject to } \dot{R}(t) &= -c(t) \\
 \dot{W}(t) &= \begin{cases} -f(W(t), c(t)) & \text{if } R(t) > 0 \\ 0, & \text{otherwise} \end{cases} \\
 R(T) &\geq 0, \quad W(T) \geq 0 \\
 R(0) &= \bar{R} \geq 0 \\
 W(0) &= \bar{W} \geq 0,
 \end{aligned} \tag{P1}$$

⁷Assuming $f(\cdot)$ is not a function of $R(t)$ simplifies our analysis. If, however, f were increasing (decreasing) in $R(t)$, we conjecture that this would mitigate (reinforce) the agent’s incentive to increase consumption over time.

⁸This discontinuity would persist even if $f(\cdot)$ were a function of $R(t)$ so long as $\lim_{R(t) \rightarrow 0} f(\cdot) > 0$. While it would simplify our analysis if the discontinuity conveniently disappeared, there is no reason to expect that it does.

where ρ is the subjective rate of time discount and $t' = \sup \{t \in [0, T] : R(t) > 0\}$. Note that the law of motion for willpower is discontinuous reflecting the fundamental discontinuity of willpower depletion discussed above.

We make the following assumptions on the willpower technology f and the utility function U . We assume that, for all W , $f(W, c) > 0$ for $c \in [0, \bar{c})$ and $f(W, c) = 0$ for $c \in [\bar{c}, \infty)$ for some $\bar{c} > 0$. While following a given consumption path, if the willpower stock becomes zero before exogenous time T , consumption must weakly exceed \bar{c} thereafter until the cake is depleted. Therefore, this assumption guarantees that the set of feasible consumption paths is nonempty. We assume that f is twice differentiable everywhere except at \bar{c} and continuous at \bar{c} . We assume that f is strictly decreasing ($f_c < 0$) and weakly convex ($f_{cc} \geq 0$) in c for $c \in [0, \bar{c})$ and weakly decreasing ($f_W \leq 0$) in W . As for cross effects, we assume that $f_{cW} \geq 0$. Thus, we assume that the more the agent restrains his consumption, the faster he depletes his willpower reserves; moreover, the same level of restraint may result in faster depletion of willpower if the agent's reserves of willpower are lower. We assume $U(0) = 0^9$, $U(c)$ is differentiable, strictly increasing and strictly concave. We are interested in modeling non-addictive behaviors like those considered in the experiments by Baumeister and colleagues; so $U(c)$ is a function only of contemporaneous consumption, and not past consumption.¹⁰

This problem, though simple in its formulation, is non-standard since the law of motion for one state variable has a discontinuity at the point where the other state variable equals zero. We solve this nonstandard problem by examining the solution to a related problem (P2 below) which is established in Appendix A to have the same solution. In P2, the agent chooses both an optimal consumption path $c(t)$ and the date $s \leq T$ after which consumption ceases, where $\dot{W} = c(t) = 0$

⁹As long as $U(0) > -\infty$, we can always renormalize the utility function U so that $U(0) = 0$.

¹⁰There is a related literature (Bernheim and Rangel, 2004; Laibson 2001) concerning self-regulation when the good consumed is addictive, or preferences are state-dependent. In these models self-control is perfect in a cool state but absent in a hot state. By changing current consumption, the agent may alter the probability that he enters the hot state, thereby indirectly exerting future self control. While these models explain important issues regarding consumption of addictive goods, they do not address essential features of willpower depletion. For example they do not explain consumption behavior for non-addictive goods, and in particular the effect of cognitive loads on consumption, and do not link behavior across seemingly unrelated activities.

for all $t \in (s, T]$.

$$\begin{aligned}
V(0) &= \int_0^s e^{-\rho t} U[c(t)] dt + e^{-\rho s} m(W(s)) \\
\text{subject to } \dot{R}(t) &= -c(t) \\
\dot{W}(t) &= -f(W(t), c(t)) \\
R(s) &\geq 0, W(s) \geq 0 \\
R(0) &= \bar{R} \geq 0 \\
W(0) &= \bar{W} \geq 0.
\end{aligned} \tag{P2}$$

The Hamiltonian for problem (P2) is given by

$$H(c(t), R(t), W(t), t, \alpha(t), \lambda(t)) = e^{-\rho t} U(c(t)) - \alpha(t)c(t) - \lambda(t)f(W(t), c(t)).$$

To reduce notation, we shall refer to this Hamiltonian as $H(t)$ when no confusion arises. The first-order conditions are:

$$c(t) \geq 0, e^{-\rho t} U'(c(t)) - \alpha(t) - \lambda(t) f_c \leq 0 \text{ and c.s.} \tag{1}$$

$$\dot{W}(t) = -f \tag{2}$$

$$\dot{\alpha}(t) = 0 \tag{3}$$

$$\dot{\lambda}(t) = \lambda(t) f_W \tag{4}$$

$$T - s \geq 0, H(s) - \rho e^{-\rho s} m(W(s)) \geq 0 \text{ and c.s.} \tag{5}$$

$$R(s) \geq 0, \alpha(s) \geq 0 \text{ and c.s.} \tag{6}$$

$$W(s) \geq 0, \lambda(s) - m'(W(s)) \geq 0 \text{ and c.s.} \tag{7}$$

It should be noted for future use that, whenever willpower is strictly positive, consumption varies continuously with time. This result follows because (1) the Hamiltonian is strictly concave in c ; (2) α and λ vary continuously with time when $W(t) > 0$; (3) U' is continuous in c ; (4) f_c is continuous in both c and W ; and (5) W varies continuously with time.

The first-order conditions can be interpreted intuitively. When $c(t) > 0$, we can rewrite (1) as:

$$\underbrace{e^{-\rho t} U'(c(t))}_{\text{direct marginal benefit}} + \underbrace{\lambda(t)(-f_c)}_{\text{indirect marginal benefit}} = \underbrace{\alpha(t)}_{\text{marginal cost}}.$$

Grouped in this way, condition (1) implies that consuming at a slightly faster rate at time t generates two marginal benefits and one marginal cost. The *direct* marginal benefit ($e^{-\rho t} U'(c(t))$) is the increase in utility at time t (expressed in utils at $t = 0$) that results from consuming more

then. Increasing consumption also has an *indirect* marginal benefit ($-f_c\lambda(t)$) since willpower is depleted at a slower rate ($-f_c$) and each unit of willpower saved at time t is worth $\lambda(t)$. The marginal cost of consuming at a faster rate at t ($\alpha(t)$) is the utility lost because the additional cake consumed at t can no longer be consumed at another time. At an interior optimum ($c(t) > 0$), the sum of the two marginal benefits equals the marginal cost (all expressed in utils at a common time, $t = 0$).

The conditions (3) and (4) highlight an important conceptual distinction between the two depletable resources in the model. Additional cake is equally valuable whenever it arrives since its availability before it is depleted provides no services and its future arrival can be fully anticipated by drawing down reserves faster in advance. That explains why the imputed value of additional cake is constant over time ($\dot{\alpha}(t) = 0$ from (3)). In contrast, when $f_W < 0$ and the willpower constraint is binding, additional willpower is more valuable the earlier it arrives because its mere presence provides a service: the more willpower one has available at t , the less must be depleted over a short interval to restrain consumption by a given amount. This is not a service upon which one can draw merely by recognizing that one will have more willpower in the future. For this reason, the imputed value of willpower declines over time ($\dot{\lambda}(t) < 0$ from (4) whenever $f_W < 0$). Of course, this distinction between the two depletable resources disappears in the special case where $f_W = 0$. In that case, additional willpower—like additional cake—is equally valuable whenever it arrives.

We are now in a position to explain intuitively how consumption changes over time. To isolate the new effects arising in our model, we assume that $\rho = 0$. Since the marginal cost of increased consumption never varies over time ($\dot{\alpha}(t) = 0$), the sum of the direct and indirect marginal benefit of increased consumption can never vary over time: whenever the direct marginal benefit path is increasing the indirect marginal benefit path must be decreasing at the same rate (and vice versa). Since utility is stationary and subject to diminishing returns, an increasing consumption path must always result in a decreasing direct marginal benefit path. Hence, an increasing consumption path must be accompanied by an increasing indirect marginal benefit path. By a similar argument, a decreasing consumption path must be accompanied by a decreasing indirect marginal benefit path. In short, $\text{sign } \dot{c}(t) = \text{sign } \frac{d}{dt}(\lambda(t))(-f_c)$.

Consumption can be constant over time if and only if the indirect marginal benefit path is constant over time. This can occur for any of three distinct reasons: (1) willpower has no value ($\lambda(t) = 0$); (2) willpower, although valuable, provides no services ($f_W = 0$), resulting in a constant imputed value of willpower and the same reduction in the speed of willpower depletion when consumption expands regardless of the size of the stock of willpower remaining (neither f_c nor $\lambda(t)$ changes with time); and (3) the willpower released by increased consumption just happens to

increase over time by exactly what is required to offset the concurrent decrease in the utility value of each unit of released willpower ($-\lambda(t)f_c$ is constant).

More formally, suppose $\rho = 0$ and $c(t) > 0$ for $t \leq s$. Condition (1) implies

$$\begin{aligned} U''(c)\dot{c} - [\dot{\lambda}f_c + \lambda f_{cc}\dot{c} + \lambda f_{cW}\dot{W}] &= \dot{\alpha} \\ U''(c)\dot{c} - [\lambda f_W f_c + \lambda f_{cc}\dot{c} - \lambda f_{cW}f] &= 0 \end{aligned}$$

\Leftrightarrow

$$\dot{c} = \lambda(t) \frac{f_W f_c - f_{cW} f}{U''(c) - \lambda(t) f_{cc}}. \quad (8)$$

Given our curvature assumptions (U strictly concave and f weakly convex in c), the denominator of the right-hand side of equation (8) is strictly negative. So if the willpower constraint does not bind ($\lambda(t) = 0$), equation (8) implies that consumption is constant. On the other hand, if $\lambda(t) > 0$, then when $c(t) > 0$, $\dot{c} \gtrless 0$ as $(f_{cW}f - f_W f_c) \gtrless 0$.

Increasing consumption paths must emerge in our model whenever the indirect marginal benefit path increases over time. To illustrate how this surprising phenomenon can arise, consider the following simple example of a willpower depletion function f :

$$f = A + K(W)g(c) \text{ with } K' \leq 0 \text{ and } g' < 0.$$

In this simple example, a given act of will is more depleting when the agent is already depleted, and willpower is either being depleted ($A > 0$) or replenished ($A < 0$) at a constant rate. Note that,

$$\begin{aligned} f_W &= K'g \\ f_c &= Kg' \\ f_{cW} &= K'g'. \end{aligned}$$

Thus,

$$\begin{aligned} \text{sign}(\dot{c}) &= \text{sign}(-K'gKg' + K'g'(A + Kg)) \\ \text{sign}(\dot{c}) &= \text{sign}(K'g'A). \end{aligned}$$

Since g is strictly decreasing and K is weakly decreasing, there are two possibilities. At any t where $c(t) > 0$, $\dot{c} = 0$ if $K' = 0$. But if $K' < 0$ then $\dot{c} \gtrless 0$ as $A \gtrless 0$. So whenever the willpower constraint is binding, $K' < 0$, and $A > 0$, the path of optimal consumption must increase over time. The increasing path emerges for two reasons. First, because A is positive, willpower would be disappearing as time elapses; this is a “use it or lose it” situation. The basic incentive that

this depletion gives for using willpower earlier is magnified by the fact that K' is negative; a given act of will is more depleting when the willpower stock is low. So the agent optimally takes the opportunity to exert acts of will when they have a relatively low opportunity cost (when W is large) and before time erodes the willpower stock. Thus consumption grows in that case because the indirect marginal benefit of increased consumption grows over time.

3 Optimal Consumption When Willpower Has Alternative Uses

Intuitively, willpower has many uses besides the regulation of intertemporal consumption and if the agent anticipates these uses their existence will affect his consumption profile. Muraven (1998) demonstrated in the laboratory that subjects do alter their behavior in anticipation of future uses of willpower. When subjects appear to have nearly exhausted their willpower, they may in fact be holding willpower in reserve for future activities. In one experiment (Muraven, 1998), some subjects were given two tasks to be performed consecutively and some were told in advance that a third task would follow the first two. When performing the second task, those who anticipated the third task gave up sooner.

If an agent lacks any alternative use of willpower, a necessary and sufficient condition for him to consume at a constant rate over the entire horizon (“perfect smoothing” for short) is that he have enough willpower initially for smoothing to be feasible. If willpower has alternative uses, however, he may refrain from perfect smoothing no matter how large his initial stock of willpower. In this section we derive necessary and sufficient conditions for perfect smoothing to occur with and without alternative uses of willpower.

3.1 The Benchmark Case

As a benchmark, we consider first the case where willpower has no alternative uses ($m(W) \equiv 0$). When willpower can only be used to regulate intertemporal consumption, perfect smoothing is optimal whenever feasible. Intuitively, since there is no shortage of willpower, there is no marginal value to having more of it ($\lambda(t) = 0$ for $t \geq 0$) and characteristics of the willpower technology do not induce time-varying consumption.

In the absence of discounting, perfect smoothing implies that consumption is constant over time for $t \in [0, T]$. More generally, Proposition 1 describes the qualitative properties of the optimal consumption path when $\rho = m(W) = 0$.

Proposition 1 *Let W_H be the minimum level of initial willpower such that setting $c(t) = \frac{\bar{R}}{T}$ for $t \in [0, T]$ is feasible. Denote the optimal consumption path as $c^*(t)$. If $\bar{W} \geq W_H$ then the cake*

is exhausted, and $c^*(t) = \frac{\bar{R}}{T}$ for $t \in [0, T]$. If $\bar{W} < W_H$ then both the cake and willpower are exhausted ($R(s) = W(s) = 0$), and when consumption is strictly positive it is strictly increasing (resp. constant, strictly decreasing) if and only if $f_{cW}f - f_W f_c$ is strictly positive (resp. zero, strictly negative).

Proof. From (3) $\alpha(t)$ is a constant function, and with a slight abuse of notation we denote this constant as $\alpha \geq 0$.

First assume $\bar{W} \geq W_H$. Consider the case where $\lambda(t) = 0$ for all $t \in [0, s]$. Since $U'(\cdot) > 0$, (1) requires $\alpha > 0$ and $c(t)$ constant. With a slight abuse of notation, we denote this constant as $c \geq 0$. Since $\alpha > 0$, (6) requires $R(s) = 0$. Since $R(0) = \bar{R} > 0$, then $c > 0$. From (5), $T - s \geq 0$. If $T - s > 0$, (5) would require $U(c) - U'(c)c = 0$. But since $U'(\cdot) > 0$, $U''(\cdot) < 0$, and $c > 0$, $U(c) - U'(c)c > 0$; hence, $T - s > 0$ must be ruled out. It follows that when $\lambda(t) = 0$ for all $t \in [0, s]$, then $s = T$ and $c = \frac{\bar{R}}{T}$. By definition of W_H , $W(T) \geq 0$. Thus (7) is satisfied. This proves the first statement in the proposition.

Now assume $\bar{W} < W_H$. Then $\lambda(t) > 0$ for all $t \in [0, s]$, for suppose to the contrary that $\lambda(t) = 0$ for some $t \in [0, s]$. Equation (4) implies that $\lambda(t)$ is weakly decreasing and can be written as:

$$\lambda(t) = \lambda(0) e^{\int_{n=0}^t f_W(W(n), c(n)) dn}.$$

Since $e^{\int_{n=0}^t f_W(W(n), c(n)) dn} > 0$ for all t , $\lambda(t) = 0$ for some $t \in [0, s]$, implies that $\lambda(t) = 0$ for all $t \in [0, s]$. But as seen above the conditions above then imply that $c = \frac{\bar{R}}{T}$ which is infeasible when $\bar{W} < W_H$. So if $\bar{W} < W_H$ then $\lambda(t) > 0$ for all $t \in [0, s]$, and by (7) $W(s) = 0$. To satisfy (1) with $U'(\cdot) > 0$ and $-\lambda f_c > 0$ requires $\alpha > 0$; and, again, since $\alpha > 0$, (6) requires that the cake is entirely consumed ($R(s) = 0$). In this case, by our earlier observations, $(f_{cW}f - f_W f_c) \stackrel{\geq}{\leq} 0$ for all $t \in [0, s]$ if and only if $\dot{c} \stackrel{\geq}{\leq} 0$ for all t where $c(t) > 0$. This concludes the proof of the proposition. ■

Note that, when $\bar{W} < W_H$, Proposition 1 describes the rate of change in optimal consumption when consumption is strictly positive. This description does not, however, preclude intervals of zero consumption. Consider the example presented at the end of section 2.1 where $f = A + K(W)g(c)$ with $K' \leq 0$ and $g' < 0$. Recall that, when $\bar{W} < W_H$ and consumption is strictly positive, the rate of change in consumption takes the sign of A . Indeed, consumption is strictly positive for $t \in [0, s]$, but the last moment of positive consumption (s) may occur before T . In that case, the optimal path has $c(t) = 0$ for $t \in (s, T]$. Thus, in this example, the agent may (if the good is leisure and A is positive) work relatively hard on a project at the beginning, slack off as time goes by, but then cram for some interval just before the deadline. This optimal cramming just before the deadline reflects a basic tension between the willpower and cake (leisure) budgets. The extra leisure needed to stretch positive consumption a bit longer at the end implies harder work earlier in the program,

and thus less willpower left over at the end. The increased consumption at the end does not reduce willpower depletion then since before, when no cake remained, no willpower was being depleted. Once the worker frees up time to enjoy leisure in the final phase, exercising restraint increases willpower depletion in that phase as well. At the optimum, therefore, smoothing the time spent working is either infeasible or implies such a distortion of the previous path (perhaps from complete slacking as willpower is depleted) as to lower utility.

3.2 Necessary and Sufficient Conditions for Perfect Smoothing When Willpower Has Alternative Uses

Having characterized how the consumer would behave if willpower had no other uses, we now turn to the more relevant case where the agent anticipates needing the remaining willpower to regulate other urges. We denote the maximized expected utility derived from these alternative uses of willpower by the bequest function, $m(\cdot) > 0$, which we assume is strictly increasing and weakly concave. Denote perfectly smooth consumption as $c_H = \frac{\bar{R}}{T}$. When willpower has alternative uses, perfect smoothing may be eschewed even when feasible. We assume throughout the remainder of this section that perfect smoothing is feasible: $\bar{W} > W_H$. To isolate the influence of willpower concerns we will continue to assume $\rho = 0$.

Denote by \hat{W} the willpower available at T if perfect smoothing (c_H) has been implemented; clearly \hat{W} depends on the initial levels of willpower and cake (\bar{W}, \bar{R}) but we suppress this dependence for simplicity. If perfect smoothing has been implemented, first-order condition (1) implies that $U'(c_H) - \lambda(T) f_c(\hat{W}, c_H) = \alpha$. Multiplying both sides by c_H we get,

$$\left[U'(c_H) - \lambda(T) f_c(\hat{W}, c_H) \right] c_H = \alpha c_H. \quad (9)$$

Since $s = T$, (5) requires $U(c_H) - \alpha c_H - \lambda(T) f(\hat{W}, c_H) \geq 0$. Substituting (9) into (5), we obtain:

$$U(c_H) - \left[U'(c_H) - \lambda(T) f_c(\hat{W}, c_H) \right] c_H - \lambda(T) f(\hat{W}, c_H) \geq 0.$$

We therefore have the following implication of $s = T$:

$$\lambda(T) \leq m_H(\hat{W}, c_H), \quad (10)$$

where we define $m_H(W, c) = \frac{U(c) - U'(c)c}{f(W, c) - f_c(W, c)c}$.

On the other hand, if $s < T$, the first-order conditions imply that

$$\lambda(s) = m_H(W(s), c(s)). \quad (11)$$

As the following proposition makes clear, when willpower has alternative uses perfect smoothing need not occur no matter how large the stock of initial willpower:

Proposition 2 *If perfect smoothing occurs, the following conditions must hold:*

- (1) $f_W f_c - f_{cW} f = 0$, for $c = \frac{\bar{R}}{T}$, $W \in [\hat{W}, \bar{W}]$, and
- (2) $m'(\hat{W}) \leq m_H(\hat{W}, c_H)$.

Proof. If smoothing is perfect then $c(t) = \frac{\bar{R}}{T}$, implying $\dot{c} = 0$ and $c(t) > 0$ for $t \in (0, T)$. Since $\bar{W} > W_H$ and therefore $\hat{W} > 0$, (7) implies that $\lambda(T) = m'(\hat{W}) > 0$, which in turn implies that $\lambda(t) > 0$ for all $t \leq T$. It then follows from (8) that perfect smoothing requires $f_W f_c - f_{cW} f = 0$ where $f(\cdot, \cdot)$ and its partial derivatives are evaluated at $c = \frac{\bar{R}}{T}$ and any $W \in [\hat{W}, \bar{W}]$. This confirms condition (1) of the proposition. Even then, since $\lambda(T) = m'(\hat{W}) > 0$, (10) requires $m'(\hat{W}) \leq m_H(\hat{W}, c_H)$, confirming condition (2) of the proposition. ■

By widening the domain of condition (1) and retaining condition (2), we can also obtain a sufficient condition for perfect smoothing to occur:

Proposition 3 *The following conditions are sufficient for perfect smoothing:*

- (1') $f_W f_c - f_{cW} f = 0$, for all $c(t) > 0$, $W \in [\hat{W}, \bar{W}]$, and (2) from Proposition (2),

Proof. To show that conditions (1') and (2) imply perfect smoothing, assume they do not. Perfect smoothing could fail to occur for two reasons: varying consumption or constant consumption terminating at $s < T$. Since (1') is assumed to hold, consumption must be constant. If it terminates at $s < T$, then $c = \frac{\bar{R}}{s} > c_H$. Since less restraint will be exercised over a shorter interval $W(s) > \hat{W} > 0$. This in turn has two implications. Since more willpower will be bequeathed to the alternative activity, $m'(\hat{W}) \geq m'(W(s))$. In addition, since $W(s) > 0$, (7) implies that $\lambda(s) = m'(W(s)) > 0$. By hypothesis, $s < T$. Then, as shown above, the first-order conditions imply $\lambda(s) = m_H(W(s), c)$. Since $m_H(\cdot, \cdot)$ is weakly increasing in the first argument and strictly increasing in the second argument, $m_H(W(s), c) > m_H(\hat{W}, c_H)$. Given the hypothesis that $s < T$ we therefore conclude that $m'(\hat{W}) \geq m'(W(s)) = \lambda(s) = m_H(W(s), c) > m_H(\hat{W}, c_H)$. But $m'(W(s)) > m_H(\hat{W}, c_H)$ violates condition (2). Hence, (1') and (2) are sufficient for perfect smoothing. ■

In the benchmark case where willpower has no alternative uses, perfect smoothing occurs whenever feasible. Characteristics of the willpower technology ($f(W(t), c(t))$) play no role. In contrast, whenever willpower has any alternative use, the consumer abandons perfect smoothing unless the willpower technology satisfies condition (1). Recall the example of Section 2.1. If $K'(W) < 0$ and $A \neq 0$, perfect smoothing *always* occurs when feasible if willpower has no alternative use but *never* occurs—no matter how large the initial stock of willpower—when there is *any* other use of

willpower. In cases where condition (1) in Proposition (2) fails, consumption increases or decreases over time as summarized by equation (8).

3.3 Rich vs. Poor: How a Difference in “Cake” Size Alone Alters Intertemporal Behavior

Unless condition (1) of Proposition 2 holds, there can be no perfect smoothing when there are alternative uses of willpower. To see some surprising implications of this result and to clarify the importance of condition (2), we conclude with an example where condition (1') and *a fortiori* condition (1) hold. In that case, perfect smoothing must occur when condition (2) holds and must not occur when condition (2) fails. We will give two interpretations of our example. In the first, the cake is interpreted as wealth; in the second it is interpreted as a stock of leisure. Under the first interpretation, we see from this example that behavioral differences between rich and poor people sometimes attributed to differences in self-control skills may reflect wealth differences and nothing more.

Suppose two agents, one poor the other rich, have the same willpower technology ($f = K(\bar{c} - c)$). Notice that this technology satisfies condition (1') and hence condition (1). Proposition (1) indicates that optimal consumption paths are constant for both rich and poor as long as consumption is strictly positive. Perfect smoothing occurs if and only if $s = T$.

Assume the rich agent has more cake than the poor but the two are identical in every other respect: same preferences over consumption profiles, same initial endowment of willpower, same willpower technology, and same bequest function. To simplify further, assume their bequest functions are linear with slope m

To distinguish whether a variable pertains to the poor or the rich agent, we append a subscript “ p ” or “ r ”, respectively. Thus, for consumption we write c_i (for $i = p, r$). Because, in this example, each agent has the same utility function and self-control technology, the *function* $m_H(\cdot, \cdot)$ is identical for each and there is no need to add the subscript i .

Assume that, for $i = p, r$, $m > m_H(\hat{W}_i, c_{H,i})$ in violation of condition (2). Then, by Proposition (2), the optimal consumption path can not involve perfect smoothing. Since consumption is constant and exhausts the cake, $s_i < T$ and $c_i > c_{H,i}$, for $i = p, r$.

Since, by assumption, both the rich and the poor carry some willpower into the second activity, additional willpower must have the same marginal utility in the two activities and, from (7), $\lambda_i(s_i) = m$. However, since $s_i < T$, (11) requires that $\lambda_i(s_i) = m_H(W_i, c_i)$. Hence,

$$m_H(W_i, c_i) = m \text{ for } i = p, r. \tag{12}$$

Since the left-hand side of (12) is independent of its first argument and strictly increasing in its

second argument, this equation defines the same consumption for the two types of agent: $c_p = c_r$ as long as both consumptions are positive. Since the poor agent has a strictly smaller cake ($\bar{R}_r > \bar{R}_p$), he must run out of cake sooner ($s_p < s_r$), after which his consumption drops to zero. Having started with the same willpower and having exercised the same restraint over a shorter time interval, the poor agent will have more willpower remaining to invest in alternative activities: $W_p(s_p) > W_r(s_r)$.

Consider what happens if the initial cake size of the rich agent is expanded. The larger the initial cake size, the longer the interval of constant consumption and the smaller the bequest. When the cake size of the rich reaches $\bar{R}_r = Tc_p$, $m = m_H(\hat{W}, c_p)$ and condition 2 is no longer violated. Further increases in the initial cake size, require $c_r = \frac{\bar{R}_r}{T} > c_p$ and since m_H is strictly increasing in its second argument, $m < m_H(\hat{W}, c_r)$. Since condition 2 holds in this region, perfect smoothing must occur. Further increases in the initial cake size cause faster but constant consumption over the entire horizon. Hence in this region willpower remaining at T becomes an increasing, instead of a decreasing, function of the initial cake size.

Interestingly, if we compare the behavior of the poor and the rich, in this region where remaining willpower is increasing in cake size, it appears as though the rich agent is more disciplined. He not only does a better job smoothing consumption, he also has more willpower left to expend on, say, exercise or diet regimes. In fact, the rich agent is endowed the same intertemporal preferences, the same self-control technology, and the same willpower stock as the poor agent. In this example, the poor agent seems less disciplined simply because he is poor.

We can reinterpret this example for the case where the cake represents leisure. Consider agents obligated to complete tasks of different sizes on or before T . Those agents with lighter workloads are, therefore, “richer” in leisure. If an agent’s workload is sufficiently light, he may work at a light but steady pace throughout the horizon, consuming leisure at a constant pace as well. A larger workload will require him to work harder and consume leisure at a slower but constant rate over the entire time horizon. Once the workload exceeds some threshold, however, the optimal program has two phases. Until time $s < T$, the agent works at a steady pace and consumes leisure at a constant rate as well; after s , the agent works relentlessly without any leisure breaks. Further increases in the workload do not alter the rate at which the agent works in the first phase. Instead, he shortens the phase during which he combines leisure and work and lengthens the phase when he works relentlessly.

4 Willpower and Time Preference: Field Evidence and Comparison with Alternative Models of Self-Control

The standard discounted utility model has proved very useful in economics but, as noted in the introduction, violations of the model seem common.¹¹ One set of violations consists of present-biased time preferences, intertemporal preference reversals, and tastes for commitment. Another violation of the standard model is negative time discounting; sometimes people prefer increasing sequences of consumption. Present-biased preferences, preference reversals and a taste for commitment have previously been explained using models of self-control. Negative time preference is usually regarded as a separate phenomenon requiring a separate model. As we have shown, however, willpower depletion can *simultaneously* explain present-biased preferences, intertemporal preference reversals, a taste for commitment *and* preferences for increasing consumption sequences. At the same time, our model accommodates previously unexplained links between (seemingly unrelated) self-control behaviors. Willpower depletion thus provides a more unified theory of time preference.

We begin this section with a discussion of the empirical evidence that people often consume from a fixed stock at an increasing rate for intervals of time. We then demonstrate that this behavior is inconsistent with prior models of self-control. Indeed models of costly self-control rule out perfect consumption smoothing as well. We conclude this section by distinguishing our treatment of self control as an endogenous shadow cost from prior treatments as an exogenous direct cost.

While consumption paths which decrease over time seem unremarkable, there is evidence that agents sometimes prefer increasing sequences of consumption. See, among many examples, Loewenstein and Prelec (1993) on food and entertainment consumption, Frank and Hutchens (1993) on wages, and Chapman (2000) on health outcomes. This evidence, drawn largely from responses to hypothetical choice scenarios, is consistent with the seemingly common desire to “save the best for last” when consumption is desirable or “get the hard part out of the way,” when the intertemporal choice involves labor versus leisure.

These previous studies did not link preferences for increasing sequences of consumption to the problems of self control that, as we have seen, can generate preferences for commitment, induce profound procrastination, and create links between behavior in seemingly unrelated self-regulation activities. Instead, these models of negative time preference focus on anticipation (time non-separable) utility and on reference dependent preferences. Because they are not focussed on issues of self control, the choice scenarios used in these studies do not emphasize whether the decision maker

¹¹See Frederick, et al. (2002), for a recent review.

is committed to the consumption path he has chosen.¹² This issue of commitment is important because, like all other models of self-control with time-separable utility, our willpower model predicts perfect smoothing of consumption if the consumer can commit to that path at any time prior to the moment consumption begins. So, for example, with commitment and no subjective rate of time discount, even a willpower constrained consumer would choose a perfectly flat consumption path from time 0 to time T .

There is, however, field evidence of unambiguously uncommitted consumers choosing increasing paths of consumption expenditure. Studies of high frequency data on individual expenditures in Britain indicate that consumers sometimes choose intervals of increasing consumption between the arrival of paychecks.¹³ Both Kelly and Lanot (2002) and Huffman and Barenstein (2004) find that the non-durable expenditures of British consumers exhibit a U-shaped pattern over the course of the four weeks between paychecks. (See, for example, their Figures 1 and 4, respectively). Such behavior can never occur in the conventional model under certainty, with time-separable utility and exponential discounting; nor can it result from allowing the conventional model to incorporate hyperbolic discounting. Models of anticipatory utility or reference dependent preferences can accommodate increasing consumption paths, but cannot explain by themselves a taste for commitment, or profound procrastination, or links between seemingly unrelated acts of self-regulation. Kelly and Lanot (2002) attribute the U-shaped pattern of consumption expenditure to uncertainty and precautionary saving within the pay period. Huffman and Barenstein (2004) attribute the interval of apparently increasing average consumption to measurement error.¹⁴ As we have seen, our model can explain these increasing sequences of consumption.

Although present in both experimental and field data, increasing consumption sequences are inconsistent with prior models of self control. The prior literature can be grouped into three

¹²The subjects in these studies are simply asked which sequence of consumption or income they prefer.

¹³There is also some, less statistically certain evidence of intervals of increasing consumption in high frequency data on daily expenditure by US consumers. See Stephens (2003), Tables 2 and 3 for total expenditure and Figures 4c-4g for non-durable expenditures.

¹⁴The Family Expenditure Survey used in both studies asks respondents to record their expenditures in a diary for two weeks. The day upon which the diary begins is randomly assigned. Public use data aggregate each household's expenditures by week. Researchers can identify whether a respondent is paid monthly and the date his last paycheck arrived but not, precisely, the date of his next check. Therefore, diary weeks that begin 25 days or more after the last check arrived will typically include expenditures from at least one day after the next check has arrived. If consumption is higher on days just after the check arrives, this measurement error may explain the higher levels of consumption in diary weeks that began 25-30 days after the last check arrived (see Huffman and Barenstein, 2004, Figure 4). This error would not seem to explain, however, the increase in average expenditure between weeks starting 21 (perhaps 17) and 24 days after the last check. Neither can this measurement error explain why average expenditure is often higher in the third week after the arrival of the last check than it is in the second (Kelly and Lanot, 2002, Figure 1).

strands. The first focuses on the present-biased choices which result from (quasi-) hyperbolic time discounting; the second models self-control problems which arise from temptation costs; the third models self-control problems which derive from internal conflicts between multiple “selves,” one a long-run self which may, at a direct utility cost, exert control over the choices of a sequence of short-term selves. Models with hyperbolic discounting (Laibson, 1997; O’Donoghue and Rabin, 1999) do not explain strictly increasing consumption since the impatience posited would always lead to larger immediate consumption and smaller consumption later. Demonstrating that dual self-models (Thaler and Shefrin, 1988; Fudenberg and Levine, 2006) and models with temptation costs (Gul and Pesendorfer, 2001, 2004a,b; Benhabib and Bisin, 2004; Dekel, Lipman and Rustichini, 2005) do not explain the preference for increasing consumption sequences requires a more detailed investigation.

Consider a finite-horizon, undiscounted version of Fudenberg-Levine’s saving model and assume no growth. Although they restrict attention to a specific functional form of the utility function and the cost function, we consider the more general case where utility is any strictly increasing and strictly concave function and cost is any strictly increasing and weakly convex function, each twice differentiable. Then in the Fudenberg-Levine model the single-agent chooses (c_1, \dots, c_t) to maximize

$$\sum_{t=1}^T \{u(c_t) - g(u(R_t) - u(c_t))\} \text{ subject to } R_{t+1} = R_t - c_t \text{ and } R_1 = \bar{R}, \quad (13)$$

where $c_t \geq 0$, $R_t \geq 0$ and $\bar{R} > 0$ and we assume that the utility function $u(\cdot)$ is strictly increasing and strictly concave and the cost function $g(\cdot)$ is strictly increasing and weakly convex. As before \bar{R} is the size of the cake, and R_t is the remaining cake in period t . To show that $c_{t+1} \geq c_t$ can never occur in their model, we verify that it would always violate the first-order condition for this problem. Assuming differentiability, the following condition must hold at an optimum:

$$u'(c_t) \cdot [1 + g'(u(R_t) - u(c_t))] - u'(c_{t+1}) \cdot [1 + g'(u(R_{t+1}) - u(c_{t+1}))] + u'(R_{t+1}) [g'(u(R_{t+1}) - u(c_{t+1}))] = 0 \quad (14)$$

The final term of (14) is strictly positive since it is the product of two strictly positive factors. As for the other two terms, they would combine to something weakly positive, violating condition (14) whenever $c_{t+1} \geq c_t$.¹⁵ Weakly increasing consumption sequences are, therefore, inconsistent with Fudenberg-Levine’s model.

¹⁵To see this, note that each term is the product of two factors. If consumption is weakly increasing the first factor of the first term ($u'(c_t)$) is weakly larger than its counterpart ($u'(c_{t+1})$). Moreover, the argument of g' in the first term is also strictly larger than its counterpart in the second term: $u(R_t) - u(c_t) > u(R_{t+1}) - u(c_{t+1})$ since the cake remaining will be strictly smaller and consumption at $t + 1$ will be weakly larger. Since g is assumed weakly convex, the first product of two factors must weakly exceed the second product of two factors and hence these terms make the left-hand side of the first-order condition even more positive.

For similar reasons, weakly increasing consumption sequences are inconsistent with Gul-Pesendorfer’s model. In the finite horizon, undiscounted version of their problem the agent maximizes:

$$\sum_{t=1}^T \{[u(c_t) + v(c_t)] - v(R_t)\} \text{ subject to } R_{t+1} = R_t - c_t \text{ and } R_1 = \bar{R}, \quad (15)$$

where $c_t \geq 0$ and $R_t \geq 0$. Both the u and v functions are assumed to be strictly increasing. To insure concavity of the objective function, the u is assumed to be strictly concave, v is convex and $u + v$ is strictly concave. It is straightforward to verify that this formulation insures strictly decreasing consumption.¹⁶ Intuitively, an agent smoothing consumption between adjacent periods can always do better by marginally redistributing consumption to the earlier of the two periods. This perturbation in consumption has no first-order effects on the sum of utilities of consumption in the two periods while strictly reducing the uneaten cake and hence the temptation cost. Thus, their model also predicts strictly decreasing consumption. In contrast, increasing consumption sequences can arise in a model with willpower depletion because the same amount of self-control is less costly in terms of willpower expended if it is exercised when the willpower stock is larger. Hence, there is an incentive to exercise more self control in the earlier of two periods (“use it or lose it”).

We conclude by distinguishing our treatment of self-control as an endogenous shadow cost from the treatment in the previous literature as an exogenous direct cost.¹⁷ Presumably there are circumstances in which the classical model predicts well. After all, it has served as the canonical model for decades. It is, therefore, an attractive feature of any new model supplanting a classical one that it include the classical model as a special case and that the circumstances in which the classical results hold are predicted endogenously. Other models of self-control do not have this feature; there are no circumstances under which they collapse to the classical model and predict consumption smoothing over time.¹⁸ In contrast, if willpower depletion is appended as a constraint,

¹⁶The first-order condition is $[u'(c_t) + v'(c_t)] - [u'(c_{t+1}) + v'(c_{t+1}) - v'(R_{t+1})] = 0$. Given that $u + v$ is strictly concave and v is strictly increasing, the first-order condition can only be solved by a strictly decreasing consumption sequence.

¹⁷In discussing an appropriate formulation to capture Baumeister’s experiments, Loewenstein and O’Donoghue (2004) regard the exertion of willpower as generating disutility although Loewenstein (2000) regards the matter as an open question. Whether or not willpower depletion has a utility cost seems difficult to resolve empirically. What we have resolved analytically, however, is that including the stock of willpower (or its rate of change) in the utility function is not necessary to capture either the behaviors psychologists have documented in their laboratories or to explain a number of prominent “anomalies” behavioral economists have reported in the field. For these purposes, it is sufficient to append to the conventional formulation of intertemporal utility maximization the additional constraint that the consumption path chosen must not overexhaust the agent’s willpower.

¹⁸Of course $(\beta - \delta)$ models of quasi-hyperbolic discounting nest the standard model (when $\beta = 1$). However, this nesting derives, exogenously, from unobserved preferences rather than endogenously from changes in observable

there will be circumstances (e.g. large stocks of initial cake or willpower or a short horizon) in which perfect smoothing does not violate the constraint and will be optimal.

5 Extensions of the Intertemporal Model

In the previous sections we have assumed that willpower is simply depleted by its use and that the agent always knows his stock of willpower with certainty. In this section, we discuss the consequences of relaxing each assumption.

5.1 Self-Control Builds Willpower Like a Muscle

Common intuition and some experimental psychology indicate that willpower may be like a muscle: controlling visceral urges depletes willpower over the short term, but the regular exercise of self-restraint may eventually build willpower. Indeed, there is some evidence that willpower can be built up in one domain and then used to advantage in other arenas (Muraven *et al.*, 1999 and Muraven and Baumeister, 2000).¹⁹ In this section, we consider how allowing willpower to be built through its exercise may affect the optimal consumption paths described in the previous sections. Of particular interest is an understanding of when the ability to build willpower reinforces and when it counteracts the incentives for increasing paths of consumption we observed in previous sections. Our analysis indicates that the ability to build willpower through its exercise may introduce variation in consumption rates over time even when willpower concerns alone do not. Because the analysis of this extension is more technical, we relegate details to Appendix B.

To evaluate the effects of buildable willpower, we introduce a third state variable, muscle, the level of which is denoted by $M(t)$. We augment our earlier model in two ways. First the rate of change of willpower is now given by $\dot{W}(t) = \gamma M(t) - f(W(t), c(t))$. As before, willpower is depleted by restraining consumption, $f(W(t), c(t))$, but this depletion is moderated by the service flow γ from the stock of muscle, $M(t)$. Since the stocks of willpower and muscle cannot jump, the only way to alter the rate of willpower depletion immediately is by altering contemporaneous consumption. In the future, however, muscle may be developed by the previous exercise of willpower and this muscle provides additional willpower at rate γ . We assume, for simplicity, that the rate at which muscle develops (or deteriorates) is given by $\dot{M} = f(W(t), c(t)) - \sigma M(t)$. The idea is that exercising willpower today contributes to one's future muscle but the contributions decay.

features of the environment.

¹⁹In one experiment (Muraven *et al.*, 1999), subjects who participated in two-week self-control drills (regulating moods, improving posture, etc.) later showed significant increases in the length of time they would squeeze a handgrip relative to those who did not participate in the drills.

Assuming that unused willpower has no terminal value, the agent's problem is to choose $c(t)$ to maximize

$$V(0) = \int_0^T e^{-\rho t} U[c(t)] dt \quad (P3)$$

subject to $\dot{R}(t) = -c(t)$

$$\dot{W}(t) = \begin{cases} \gamma M(t) - f(W(t), c(t)) & \text{if } R(t) > 0 \\ \gamma M(t) & \text{otherwise} \end{cases} \quad (16)$$

$$\dot{M}(t) = \begin{cases} f(W(t), c(t)) - \sigma M(t) & \text{if } R(t) > 0 \\ -\sigma M(t) & \text{otherwise} \end{cases} \quad (17)$$

$$R(t) \geq 0, W(t) \geq 0, M(t) \geq 0 \text{ for } t \in [0, T] \quad (18)$$

$$R(0) = \bar{R} > 0, W(0) = \bar{W} > 0, M(0) = \bar{M} > 0.$$

The optimal consumption path in this muscle model shares some qualitative features with that in the model without muscle. First, the cake is entirely consumed. Second, for every initial level of muscle there is a willpower level $W_{\bar{H}}$ above which the optimal path entails perfect smoothing. This is true because, for every initial stock of muscle there is an initial stock of willpower sufficiently large such that the Hotelling path is feasible and therefore optimal.²⁰ If we start with an initial level of willpower sufficient for perfect smoothing, decreases in that stock will eventually lead to a willpower level ($W_{\bar{H}}$) where any further reduction in the initial stock of willpower will make the perfectly smooth path infeasible.

Next, we ask how allowing buildable willpower alters our previous conclusions about the time path of optimal consumption in the absence of discounting ($\rho = 0$). As in the model with out muscle, on the optimal path the *sum* of the direct and indirect marginal benefits of increased consumption must remain equal to the marginal cost of that consumption (having a bit less cake for the future). Hence, if consumption is strictly increasing over time, which would depress the direct marginal benefits of consumption, then the indirect marginal benefits must also be strictly increasing. Formally, we find

$$\dot{c} = \frac{\overbrace{(\lambda - \pi)(f_W f_c - f_c W f)}^{\text{direct willpower effect}}}{\Delta} + \frac{\overbrace{(\lambda - \pi) f_c W \gamma M(t)}^{\text{muscle service flow}}}{\Delta} + \frac{\overbrace{(\lambda (\frac{\gamma}{\sigma}) - \pi) \sigma f_c}{\text{muscle building}}}{\Delta} \quad (19)$$

where $\Delta = [U''(c) - (\lambda - \pi) f_{cc}] < 0$, λ is the costate associated with the law of motion for willpower and π is the costate associated with the law of motion for muscle. That is, $\lambda(t)$ is the shadow value of willpower at time t and $\pi(t)$ is the shadow value of muscle at t . Note that if $\lambda(t) = \pi(t) = 0$ for

²⁰Indeed, if the initial muscle level is large enough, the agent will be able to achieve perfect smoothing without any initial willpower.

$t \geq 0$, equation (19) yields the classical result that consumption is constant as long as it is positive and indeed the first order conditions will require that it be positive until T .

To clarify how muscle building influences the time path of optimal consumption when perfect smoothing is infeasible, we consider two special cases where, in the absence of muscle, the optimal consumption path is particularly simple. Specifically, we consider first the case where the rate of willpower depletion is determined only by rate of consumption and not by the willpower remaining ($f_W = 0$), and second the case where $(f_W f_c - f_{cW} f) = 0$. In each of these cases, when muscle is absent, optimal consumption is constant until some time s when consumption drops to zero. In other words, willpower concerns alone would induce no time preference except at the point when the cake (and willpower) is depleted entirely.

Referring to equation (19), case 1 ($f_W = 0$) implies that both the direct willpower effect and the muscle service flow are absent. The time path of consumption is therefore determined only by muscle building. First consider the case where muscle decays at a faster rate than it contributes to willpower [$(\gamma/\sigma) \leq 1$]. In this case, the muscle building term of equation (19) is always positive. Thus when $(\gamma/\sigma) \leq 1$ and $f_W = 0$, consumption is always increasing. Relative to the optimal path in the absence of muscle, the ability to build willpower through its exercise leads the agent to bear down at the beginning of the program in order to enjoy a greater willpower later.

When muscle decays more slowly [$(\gamma/\sigma) > 1$], more complex consumption paths may emerge. Depending on initial conditions, optimal behavior may have the same qualitative features as when $(\gamma/\sigma) \leq 1$. Consumption is always increasing. In other circumstances detailed in Appendix B, however, consumption will decrease with time and later increase. That is, the consumption profile is \cup - shaped.

Referring again to equation (19), case 2 [$(f_W f_c - f_{cW} f) = 0$] implies that only the direct willpower effect is inactive. Relative to the optimal path in the absence of muscle, the ability to build of willpower with exercise again induces time preference. Consider, for example, a situation where the initial muscle stock is zero ($M(0) = 0$), and thus, at the beginning of the program, the muscle service flow term is inactive. In the beginning of the program, optimal behavior in this case is like that in the case where $f_W = 0$. For example, when $(\gamma/\sigma) \leq 1$, consumption will increase in these early stages of the optimal path. Thus we see in each of these cases that the ability to build willpower through its exercise induces a time preference for consumption even when willpower concerns themselves do not.

5.2 Depleting a Stock of Willpower of Unknown Size

Loewenstein (2000) points out that an agent may not be a good judge of the willpower he has in reserve. He may in retrospect find that he overestimated his self-control resources or he may be pleasantly surprised to have more willpower than he anticipated and discover that he has “a second wind.” Gilbert (1979), among others, has addressed a similar issue when there is a single depletable resource. His analysis can easily be adapted to the case where the agent knows his cake size but not his initial reserves of willpower.

A two-state example will clarify the basic ideas. Suppose an agent has one of two initial stocks of willpower and assigns positive probability to each state. Assume that the agent has no alternative use of willpower ($m(W) = 0$) and that even the larger stock of willpower is insufficient to implement perfect smoothing. Assume that that $f_W = 0$ so that consumption is constant when strictly positive.

If the agent knew that his willpower stock was low, he would conserve it by consuming at a rapid, constant rate and would deplete his cake quickly, after which he would have nothing left to consume until the end of the horizon. Denote as s_l the date when he would exhaust his cake if he was sure his initial willpower stock was low. Similarly, denote as $s_h (> s_l)$ the date when he would exhaust his cake if he was sure his initial willpower stock was high. Suppose, however, that the consumer could not observe his willpower reserves directly. Then, whatever consumption path he chooses, he would obtain no information about his initial willpower stock until the date when his willpower would have run out if his initial stock had been small. At that point, he could infer the size of his initial reserves: if he loses control because he has no more willpower, then his initial reserves were small; if he retains control because he has more willpower, then his initial reserves were large.

Under uncertainty of this kind, it is optimal to consume at a constant rate intermediate between the alternative consumption rates he would choose under certainty. Since this would involve restraining his consumption more than is optimal if he was certain his willpower stock was low, he would run out of willpower sooner in the event that his initial stock was in fact low. If we denote as s_{ul} the date when he would run out under uncertainty if his initial stock of willpower was in fact low, then $s_{ul} < s_l$. In that event, lacking willpower reserves to control his consumption, he would exhaust the remaining cake at the rate \bar{c} and then would have nothing left to consume until the end of the horizon.

On the other hand, if at s_{ul} the agent discovered that he still had the ability to restrain consumption, then he would rationally conclude that his initial willpower stock had been high. Since he had been consuming at a faster rate than if he had known this state from the outset, he

would find himself at s_{ut}^+ with more willpower and less cake. In this circumstance, the consumer would take advantage of this “second wind” by restricting his consumption below the constant rate he would have chosen if he had known from the outset of his high reserves of willpower.

6 Linkages Between Contemporaneous Activities Requiring Willpower: Controlling Unhealthy Behaviors

Our analysis has so far focused on the intertemporal allocation of willpower. Of course, at any given time, an individual also needs to allocate willpower among various activities requiring self-control. This intratemporal allocation problem is a natural one when the capacity for self-regulation is scarce. The existing models of self-control do not speak to this issue because they do not consider fungible capacities for self-restraint.

In this section we consider the implications of the optimal, intratemporal allocation of willpower across competing activities with an application to health investments. A simple model of optimal intratemporal willpower allocation predicts that, among the willpower constrained, the correlation of health-related activities such as smoking, drinking, and overeating will be negative. Trading off current consumption and future health, those with a binding willpower constraint focus their limited powers of self-control on activities (such as quitting smoking) with the greatest effect on future health. This attention to certain activities comes at the expense of others that require self-regulation. Thus when most in the population are willpower constrained, contrary to the predictions of a standard health investment model, and consistent with field evidence described below, the correlation of health-related behaviors may be low.

A recent study by David Cutler and Ed Glaeser (2005) documents a surprising fact: the correlation of different health-related behaviors across individuals is remarkably low. Using multiple sources of U.S. data, Cutler and Glaeser show, for example, that smokers are not much more likely to be heavy drinkers; heavy drinkers are no more likely to be obese, and the obese are no more likely to avoid taking recommended medications.²¹

Cutler and Glaeser go on to show formally that this low correlation of health-related behaviors is incompatible with a standard economic model where the substantial differences in levels of healthy behavior are attributed largely to individual heterogeneity in investment factors. Specifically, in the context of a standard but quite flexible model, Cutler and Glaeser show that low correlation of health-related behaviors requires relatively little variation in subjective rates of time discount and

²¹In National Health Interview data from 1990 the highest correlation of these behaviors is between smoking and drinking ($\rho = 0.16$). See Cutler and Glaeser (2005), Table 1.

in the value of life.²² This implication of the standard formulation is troubling since differences in age alone should theoretically generate considerable variation in the value of a statistical life (Kniesner *et al.*, 2006) and the variation in subjective rates of time discount is typically estimated to be substantial (see, e.g., Warner and Pleeter, 2001, and Harrison *et al.*, 2002).

If most people are willpower constrained, however, the low correlation in health-related behaviors can be explained even if there is a substantial variation in the value of life. To simplify, suppose people exert self control in two health-related activities and have either a high or low value of life and either a high or a low willpower endowment. Assume some people are always willpower constrained. Among such people, those that have the higher value of life will exert more self control in one activity but that requires them to relinquish self control in the other activity; therefore, among this group the correlation of self-control activities is -1. Assume other people have so much willpower that they are never constrained (as in the conventional model). Among such people, those that value life more will exert more self control in each activity; therefore, in this group the correlation of self-control activities is +1. Aggregating over *both* groups, the correlation of self-control activities can be anything between -1 and +1, depending on the relative representation of the two groups in the population. To illustrate, we construct an example below in which the correlation is smaller than 10^{-3} ; and yet this low correlation is achieved with a variance of the value of life of exceeds 10^6 .

The following example appends a willpower constraint to the Cutler-Glaeser model. In our formulation, a_1 and a_2 represent self-control activities that reduce enjoyment of consumption (reduce drinking and eating) but promote health.²³ The agent maximizes discounted lifetime utility

$$\sum_{j=1}^2 (-0.5a_j^2 - b_j^i a_j) + \left(\bar{\pi} + \sum_{j=1}^2 \pi_j^i a_j \right) \beta_i V_i$$

subject to the willpower constraint

$$\bar{W}_i - \sum_{j=1}^2 K_j^i a_j \geq 0.$$

Here, b_j^i is an individual-specific return to action j , π_j^i is the self perceived effect of action j on the survival probability, β_i is the individual-specific discount rate, V_i is the value of survival, \bar{W}_i is the

²²Cutler and Glaeser's investment model also shows that that the low correlation of health-related behaviors is incompatible with substantial variation in cross-behavior tastes for healthy activities. In other words, there are no "healthy" or "unhealthy" types of people whose behavior is driven by their general tendency to enjoy or to dislike healthy activities.

²³These decisions can be transformed to consumptions which are unhealthy but enjoyable by a simple change of variable: for example, $c_j = \bar{x}_j - a_j$, where x_j is a constant and c_j is consumption of j . The correlation between transformed variables, c_1 and c_2 , will be the same as between a_1 and a_2 .

individual-specific willpower stock and K_j^i is the per unit willpower cost of action j . All of these variables are potentially stochastic and independent of each other.

Suppose the value of life V_i is 7,000 with probability 0.39 and 10,000 with complementary probability. Similarly, available willpower \bar{W}_i is either 51 or 100. Suppose further that $\beta_i = 0.8$, $b_1^i = 30$, $b_2^i = 10$, $K_1^i = K_2^i = 1$, $\pi_1^i = 0.01$ and $\pi_2^i = 0.00625$ for all individuals i . The example has been constructed to reflect a familiar tradeoff. Activity 1 is particularly distasteful, but particularly good for future health. The other activity is less unpleasant, but also contributes less to future health. The following table lists the optimal choices where the first entry is the optimal choice for a_1 .

	Low Willpower	High Willpower
Low Value of Life	26, 25	26, 25
High Value of Life	30.5, 20.5	50, 40

In this example people with high willpower are unconstrained even if they value life highly. People with low willpower have just enough willpower to implement the same self control actions when they have a low value of life, but are forced to choose a point on the same willpower constraint when they have a high value of life (Figure 3). If the probability of low willpower is 0.979 the correlation between a_1 and a_2 is smaller than 10^{-3} while variance of the value of life exceeds 10^6 . Thus, a low correlation in health-related behaviors is consistent with substantial variation in the value of life, as willpower constraints induce, in a large group of people, a negative correlation of healthy activities.

The example we constructed above is robust to the introduction of alternative uses of willpower. If willpower also has (current or future) uses that do not affect health, then an individual who values life highly could withdraw willpower from these alternative activities. This would relax his willpower constraint and it would then be feasible to increase both health-related activities. However, it could still be preferable to increase one health-related activity and reduce the other. Intuitively, the optimal response to an increase in the value of life can be decomposed into (1) the change in the two health-related activities if the willpower allocated to them did not increase and (2) the additional change in these two activities when willpower is reallocated to them from the alternate activity. This latter effect will be negligible, however, if the marginal utility of willpower in the alternate activity declines with sufficient speed (if the bequest function is sufficiently concave). The two health-related activities will then move in opposite directions, just as in our example.

7 Conclusion

This paper has explored the consequences of including in a conventional model of intertemporal choice a cognitive constraint well-documented by experimental psychologists. Specifically, we assumed that if an agent restricts his consumption, then exercising self-restraint depletes his finite stock of willpower. This willpower constraint captures the common notion, consistent with laboratory experiments, that an individual has a limited, though positive, capacity to regulate his own impulsive behaviors.

To study how a binding willpower constraint affects choices over time, we introduced it in the simplest intertemporal model, where an agent decides how to consume a cake (or paycheck or stock of leisure time) over a fixed time period. With sufficient willpower, an agent perfectly smooths, consuming cake at a constant rate (in the absence of discounting) until the end of the planning horizon.

If the agent lacks the willpower to implement this program, however, his willpower acquires scarcity value and his optimal response is to behave in ways that might seem anomalous and which the prior self-control literature has sought to explain. Specifically, a consumer subject to a binding willpower constraint exhibits a taste for commitment, an apparent present bias, and a tendency for profound procrastination. Moreover, he displays other anomalous behaviors that, although well-documented, are inconsistent with existing models of self control. For example, prior cognitive loads affect his subsequent conduct because they reduce the stock of willpower he can use to regulate his behavior. Moreover, an agent in our model may *increase* his consumption over time because exercising self control later, when his stock of willpower is reduced, requires more willpower than exercising the same self control earlier. Finally, a willpower constrained consumer regards seemingly unrelated activities as linked since he uses the same cognitive resource to exercise self control in different activities. This linkage has important implications. If willpower has alternative uses besides restraining consumption (e.g. cramming for exams), the agent may never smooth consumption regardless of his initial willpower.

We considered two extensions of the intertemporal model. First, we investigated what would happen if current exercise of self control, while immediately depleting willpower, also builds willpower reserves in the future. We found that renewable willpower induces a time preference even when consumption would have been constant if willpower had been nonrenewable. Second, we considered the possibility that the decision maker is uncertain about his stock of willpower. We found that the agent would optimally consume at a higher rate as a hedge against the risk of running out of willpower and, if surprised to infer that he has larger willpower reserves, experiences a “second wind” that permits further self-discipline later on the optimal path.

Finally we extended our analysis to the *intra*temporal problem of allocating of willpower across competing self-control activities, with an application to health-related investments. The *intra*temporal allocation problem is a natural one when willpower is fixed in supply. Because they do not consider fungible capacities for self-restraint, however, the existing models of self-control do not speak to this issue. Our analysis showed that when most in the population are willpower constrained, contrary to the predictions of a standard health investment model, and consistent with field evidence (Cutler and Glaeser, 2005), the correlation of health-related behaviors may be low.

That willpower is scarce and depletable accords with both introspection and experiment. To explore how this constraint affects *inter*temporal behavior, we appended it to the canonical model of *inter*temporal choice. To our surprise, we found that the augmented model accounts *both* for prominent anomalies of *inter*temporal choice that have been the focus of the self-control literature *and* for other anomalies that were unaddressed by that literature and which have instead been treated as altogether separate phenomena requiring separate models. Scarcity of willpower also affects *intra*temporal behavior as well. To illustrate, we appended a willpower constraint to the standard model of health investment and discovered that variations in willpower endowments may explain the anomalous low correlation in contemporaneous health-related activities noted by Cutler and Glaeser (2005). Given that taking account of willpower depletion is so tractable and illuminating, future research should clarify experimentally the form of the willpower depletion function and should embed that function as a constraint in other economic models.

Appendix A: The Equivalence of Solving Problems $P1$ and $P2$

Here we show that by solving the problem in which the date when consumption ceases is a choice variable ($P2$), we in fact solve our original problem ($P1$). In problem ($P1$), the optimal consumption path either finishes the cake at time $t' < T$, or it does not. If the cake is exhausted at time $t' < T$, then the law of motion governing the depletion of willpower jumps to zero, and for any time $t \in (t', T]$, $\dot{W}(t) = c(t) = 0$. These same paths of consumption and willpower could be achieved in problem ($P2$) by choosing $s = t'$, and would generate the same payoff. Similarly, if in the original problem ($P1$) the cake is not exhausted before time T ($R(t) > 0$ for $t < T$), these paths of consumption and willpower could also be achieved in the related problem by choosing $s = T$, and would generate the same payoff. Since the two problems share objective functions and laws of motion up to time $s = t'$, any program that is feasible in the original problem is also feasible in the related problem and will generate the same payoff.

Given that any consumption path that is feasible in problem ($P1$) is also feasible in problem ($P2$), if the optimal consumption path in problem ($P2$) is feasible in problem ($P1$) then it is also optimal in problem ($P1$).²⁴ A sufficient condition for any consumption path in problem ($P2$) to be feasible in problem ($P1$) is that the consumption path depletes the cake by time s ($R(s) = 0$). After all, that consumption path generates the same willpower path up to time s in both problems and therefore $W(t) \geq 0$ up to time s . After time s in problem ($P1$), willpower remains constant (at $W(s)$) since the cake is depleted. Hence any such consumption path is feasible in problem ($P1$) as well.

To see that the optimal consumption path in ($P2$) exhausts the cake at time s , suppose the contrary—that the “optimal” program leaves $R(s) > 0$ cake uneaten at s . To dominate this program, consider a different program that duplicates the “optimal” consumption path up to time $s - \Delta$, for any $\Delta > 0$, and consumes $\frac{R(s)}{\Delta}$ more during the remaining interval of length Δ . This exhausts the cake, draws willpower down to the same level at $s - \Delta$ and depletes less willpower during $(s - \Delta, s)$. Indeed, one can always choose Δ small enough that $\frac{R(s)}{\Delta} \geq \bar{c}$. In this case, depletion of willpower during $(s - \Delta, s)$ ceases altogether. Not only would utility from the alternative activity be weakly larger than on the “optimal” path but utility from intertemporal consumption would be strictly larger. This follows since the alternative consumption path is uniformly higher throughout and strictly higher from time $s - \Delta$ to s . This contradicts the claim that any feasible path with

²⁴To see this, suppose that the optimal consumption path in problem ($P2$) is feasible but not optimal in problem ($P1$). Then there is a strictly preferred consumption path that is feasible in problem ($P1$). But by our earlier argument this path is also feasible in problem ($P2$) and would dominate the program we claimed was optimal in problem ($P2$). Hence we have a contradiction.

$R(s) > 0$ can be optimal. Hence, without loss of generality, we can confine our attention to problem (P2).

Appendix B: When Willpower May be Built Through Its Exercise: Details

Again we consider a related but more tractable problem and argue that, by solving it, we solve problem (P3). In the related problem, the agent chooses both an optimal consumption path $c(t)$ and the date $s \leq T$ after which consumption ceases, where $\dot{W}(t) = \dot{M}(t) = c(t) = 0$ for all $t \in (s, T]$, to maximize:

$$V(0) = \int_0^s e^{-\rho t} U[c(t)] dt \quad (P4)$$

subject to the constraints of problem (P3) except constraints (16)-(18) which are replaced by:

$$\begin{aligned} \dot{W}(t) &= \gamma M(t) - f(W(t), c(t)) \\ \dot{M}(t) &= f(W(t), c(t)) - \sigma M(t) \\ R(t) &\geq 0, W(t) \geq 0, M(t) \geq 0 \text{ for } t \in [0, s]. \end{aligned}$$

As in the problem without muscle, to show that this tractable problem has the same consumption path for $t \in [0, s]$ as the solution to the actual problem (P3), it suffices to show that in problem (P4) the entire cake is consumed by $t = s$ in the optimal solution. To see this note that if $R(s) > 0$ in the optimal program then $M(s) > 0$ and $W(s) \geq 0$. But then we could choose Δ small enough that $\frac{R(s)}{\Delta} \geq \bar{c}$. We could then duplicate the proposed optimal path until $s - \Delta$ and augment it by $\frac{R(s)}{\Delta}$ in this final interval. The payoff would be strictly higher and the program would be feasible since the willpower left at $s - \Delta$ is the same in the two programs ($W(s - \Delta) \geq 0$) and no willpower is depleted in the final interval.

Having established that the solution of our related problem (P4) solves the actual problem (P3), we make two observations which simplify the analysis. First, since the muscle is initially positive and decays exponentially even if it is never augmented, muscle will be strictly positive and will at no time violate the nonnegativity constraint. Second, since the stock of cake can only decline, requiring that it is nonnegative at s insures that it will be nonnegative previously.

Given that for $t \in [0, s)$ these two state variables must be nonnegative, we can simplify our formulation by replacing $R(t) \geq 0$ and $W(t) \geq 0$ by $R(s) \geq 0$ and $W(s) \geq 0$. However, since $W(s) \geq 0$ no longer implies that $W(t) \geq 0$ for $t < s$, the conditions which must necessarily hold at an optimum whenever $W(t) > 0$ will differ from those that hold while $W(t) = 0$. Given our focus,

we consider only the former situation in detail.²⁵ The Hamiltonian for this problem is:

$$\begin{aligned} H(c(t), R(t), W(t), t, \alpha(t), \lambda(t), \pi(t)) \\ = e^{-\rho t} U(c(t)) - \alpha(t) c(t) + \lambda(t) (\gamma M(t) - f(W(t), c(t))) + \\ \pi(t) (f(W(t), c(t)) - \sigma M(t)). \end{aligned}$$

The first order conditions are given by,

$$c(t) \geq 0, e^{-\rho t} U'(c(t)) - \alpha(t) - (\lambda(t) - \pi(t)) f_c \leq 0 \text{ and c.s.} \quad (20)$$

$$\dot{W}(t) = \gamma M(t) - f \quad (21)$$

$$\dot{M}(t) = f - \sigma M(t) \quad (22)$$

$$\dot{\alpha}(t) = 0 \quad (23)$$

$$\dot{\lambda}(t) = f_W (\lambda(t) - \pi(t)) \quad (24)$$

$$\dot{\pi}(t) = \pi(t) \sigma - \lambda(t) \gamma = -\gamma \left(\lambda(t) - \frac{\sigma}{\gamma} \pi(t) \right) \quad (25)$$

$$T - s \geq 0, H(c(s), R(s), W(s), s, \alpha(s), \lambda(s), \pi(s)) \geq 0 \text{ and c.s.} \quad (26)$$

$$W(t) > 0 \text{ and c.s.} \quad (27)$$

$$R(s) \geq 0, \alpha(s) \geq 0 \text{ and c.s.} \quad (28)$$

$$W(s) \geq 0, \lambda(s) \geq 0 \text{ and c.s.} \quad (29)$$

$$M(s) \geq 0, \pi(s) \geq 0 \text{ and c.s.} \quad (30)$$

To analyze the dynamics of consumption, it will be useful to sign $\lambda(t) - \pi(t)$ and $\lambda(t) \left(\frac{\gamma}{\sigma}\right) - \pi(t)$. First assume that $\gamma/\sigma \leq 1$. In this case, we show that each of the preceding terms is weakly positive while $\dot{\lambda}$ and $\dot{\pi}$ are weakly negative. These results can be most readily understood using the phase diagram depicted in Figure 1. Provisionally assume that $f_W < 0$ and $\gamma > 0$. Then we can plot the locus of (λ, π) pairs such that $\dot{\lambda} = 0$. By the $\dot{\lambda}$ equation (24), these points lie on the 45° line $\pi = \lambda$. Horizontal motion above this locus is to the right and below it is to the left. Similarly, we can plot the locus of (λ, π) pairs such that $\dot{\pi} = 0$. By the $\dot{\pi}$ equation (25), these points lie on a flatter ray provided $\frac{\gamma}{\sigma} < 1$. In the extreme case where $\frac{\gamma}{\sigma} = 1$, the two rays coincide. Vertical motion above the $\dot{\pi} = 0$ locus is upward and below this locus it is downward. As long as muscle exists at any time in

²⁵To derive conditions which must hold across both cases, Seierstad and Sydsæter (1987), and also Léonard and Long (1992)) begin by forming the Lagrangean $H + \Theta(t)W(t)$, where $\Theta(t)$ is a Lagrange multiplier. In such problems the multiplier (λ) on the state variable (willpower) may jump discontinuously as the nonnegativity constraint is just reached or as it becomes slack. If that multiplier does jump, then consumption would jump as well at such dates.

the program, some will remain at the end ($M(T) > 0$), because it at most decays exponentially and therefore never reaches zero. It follows from condition (30) that the endpoint condition $\pi(T) = 0$ is satisfied. As long as willpower considerations matter ($\lambda(0), \pi(0) \neq 0$), the endpoint condition and dynamics preclude initial multipliers set at or above the lower of the two rays since then $\dot{\pi} \geq 0$ implying $\pi(T) > 0$. Thus $\pi(T) = 0$ requires that the initial multipliers be set below the lower of the two rays. But this in turn implies that $\lambda - \pi > 0, \frac{\gamma}{\sigma}\lambda - \pi > 0, \dot{\lambda} < 0$, and $\dot{\pi} < 0$.

Now consider the case where $\gamma/\sigma > 1$, depicted in Figure 2. The endpoint condition $\pi(T) = 0$, together with these dynamics imply that there will be a final phase in which the multipliers will lie strictly below the $\dot{\lambda} = 0$ locus, and thus, again, $\lambda - \pi > 0, \frac{\gamma}{\sigma}\lambda - \pi > 0, \dot{\lambda} < 0$, and $\dot{\pi} < 0$.

To see that the optimal consumption path in the muscle model involves consuming the entire cake, note that having assumed $U'(\cdot) > 0$ and $f_c < 0$, and shown $(\lambda - \pi) > 0$, we can satisfy (20) only if $\alpha > 0$; and then (28) requires that the cake be exhausted by time s . To see that, if we start with an initial level of willpower sufficient for perfect smoothing, decreases in that stock eventually lead to a willpower level ($W_{\tilde{H}}$) where any further reduction in the initial stock of willpower will make the perfectly smooth path infeasible, note that since $\lambda(0) \geq 0$, we know that utility is increasing in the initial stock of willpower. Because perfect smoothing is the optimal path in the absence of willpower concerns path, it follows that such a path is infeasible for any $W(0) < W_{\tilde{H}}$.

Finally, we turn to the time path of optimal consumption in the absence of discounting ($\rho = 0$). Differentiating condition (20), we obtain:

$$\begin{aligned} U''(c) \dot{c} &= \dot{\alpha} + \left(\dot{\lambda} - \dot{\pi}\right) f_c + (\lambda - \pi) \left(f_{cc}\dot{c} + f_{cW}\dot{W}\right) \\ &= (f_W(\lambda - \pi) - (\pi\sigma - \lambda\gamma)) f_c + (\lambda - \pi) \left(f_{cc}\dot{c} + f_{cW}\dot{W}\right) \\ &= (\lambda - \pi) \left(f_W f_c + f_{cc}\dot{c} + f_{cW}\dot{W}\right) - (\pi\sigma - \lambda\gamma) f_c \end{aligned}$$

which implies

$$\dot{c} = \frac{\overbrace{(\lambda - \pi)(f_W f_c - f_{cW} f)}^{\text{direct willpower effect}}}{\Delta} + \frac{\overbrace{(\lambda - \pi) f_{cW} \gamma M(t)}^{\text{muscle service flow}}}{\Delta} + \frac{\overbrace{\left(\lambda \left(\frac{\gamma}{\sigma}\right) - \pi\right) \sigma f_c}{\text{muscle building}}}{\Delta} \quad (31)$$

where $\Delta = [U''(c) - (\lambda - \pi) f_{cc}] < 0$. The inequality follows because c maximizes the Hamiltonian. If $\lambda(t) = \pi(t) = 0$ for $t \geq 0$, equation (31) yields the classical result that consumption is constant as long as it is positive and equation (26) requires that it be positive until T .

Referring to equation (31), if $f_W = 0$ then both the direct willpower effect and the muscle service flow are absent. First consider the case where muscle decays at a faster rate than it contributes to willpower [$(\gamma/\sigma) \leq 1$]. In this case, the muscle building term of equation (31) is always positive (see Figure 1) and the associated discussion). Thus when $(\gamma/\sigma) \leq 1$ and $f_W = 0$, consumption is always increasing.

When muscle decays more slowly $[(\gamma/\sigma) > 1]$, more complex consumption paths may emerge. If the multipliers λ and π are initially located in regions II or III of Figure 2, optimal behavior has the same qualitative features as when $(\gamma/\sigma) \leq 1$. Consumption is always increasing. If, however, the multipliers are initially located in region I of Figure 2, consumption will decrease with time until the multipliers pass into region II. That is, the consumption profile is \cup - shaped.

Referring again to equation (19), if $(f_W f_c - f_{cW} f) = 0$ then only the direct willpower effect is inactive. Relative to the optimal path in the absence of muscle, the ability to build of willpower with exercise again induces time preference. Consider, for example, a situation where the initial muscle stock is zero ($M(0) = 0$), and thus, at the beginning of the program, the muscle service flow term is inactive. In the beginning of the program, optimal behavior in this case is like that in the case where $f_W = 0$. For example, when $(\gamma/\sigma) \leq 1$, consumption will increase in these early stages of the optimal path.

Figures

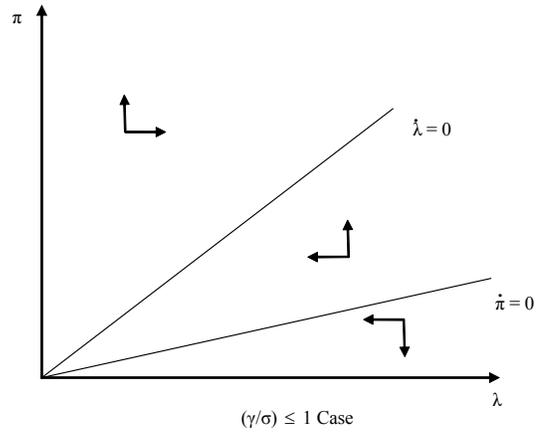


Figure 1: Phase Diagram of Costate Variables in Muscle Model Where $\frac{\gamma}{\sigma} \leq 1$.

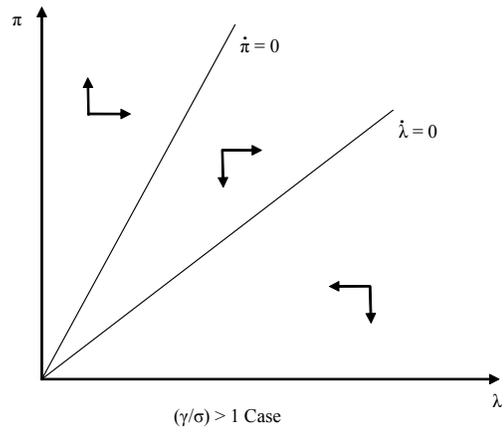


Figure 2: Phase Diagram of Costate Variables in Muscle Model Where $\frac{\gamma}{\sigma} > 1$.

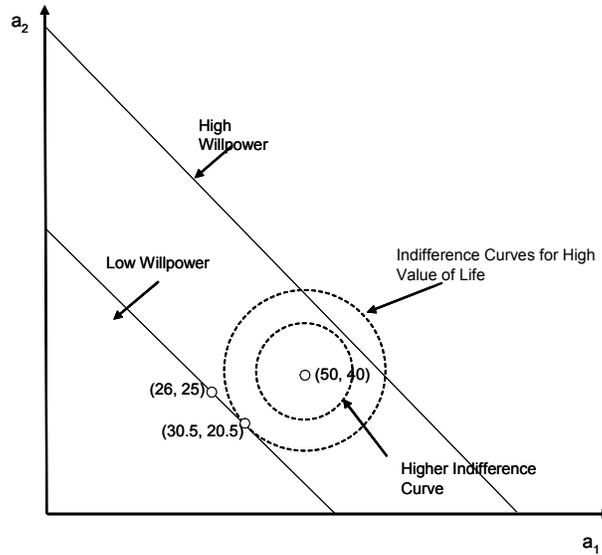


Figure 3: Controlling Unhealthy Behaviors with Differing Values of Life and Willpower

References

- [1] Baumeister, Roy. "Yielding to Temptation: Self-Control Failure, Impulsive Purchasing, and Consumer Behavior." *Journal of Consumer Research*, 2002, 28 (March), pp. 670-76.
- [2] Baumeister, Roy; Bratslavsky, Ellen; Muraven, Mark and Tice, Dianne. "Ego Depletion: Is the Active Self a Limited Resource?" *Journal of Personality and Social Psychology*, 1998, 74:1252-65.
- [3] Baumeister, Roy; Heatherton, Todd and Tice, Dianne. *Losing Control: How and Why People Fail at Self-Regulation*. San Diego, CA: Academic Press, 1994.
- [4] Baumeister, Roy and Vohs, Kathleen. "Willpower, Choice, and Self-Control" in Loewenstein, George; Read, Daniel and Baumeister, Roy, eds. *Time and Decision*. New York: Russell Sage Foundation, 2003.
- [5] Benabou, Roland and Tirole, Jean. "Willpower and Personal Rules." *Journal of Political Economy*, 2004, 112(4), 848-87.
- [6] Benhabib, Jess and Bisin, Alberto. "Modelling Internal Commitment Mechanisms and Self-Control: A Neuroeconomics Approach to Consumption-Saving Decisions." Forthcoming in *Games and Economic Behavior*, 2004.

- [7] Benhabib, Jess, Bisin, Alberto, and Andrew Schotter. "Present-Bias, Quasi-Hyperbolic Discounting and Fixed Costs." Mimeo, New York University, 2006.
- [8] Bernheim, B. Douglas and Rangel, Antonio. "Addiction and Cue-Triggered Decision Processes." *American Economic Review*, 2004, 95(5), pp. 1558-1590.
- [9] Chapman, Gretchen. "Preferences for Improving and Declining Sequences of Health Outcomes." *Journal of Behavioral Decision Making*, 2000, 13, pp. 203-218.
- [10] Cutler, David M., and Glaeser, Edward (2005). "What Explains Differences in Smoking, Drinking, and Other Health-Related Behaviors?" *The American Economic Review*, Vol. 95 (2): 238-242.
- [11] Dekel, Eddie; Lipman, Barton L. and Rustichini, Aldo. "Temptation-Driven Preferences." Working Paper, 2005.
- [12] Dewitte, Siegfried; Pandelaere, Mario; Briers, Barbara and Warlop, Luk. "Cognitive Load Has Negative After Effects on Consumer Decision Making." Mimeo, Katholieke Universiteit Leuven, 2005.
- [13] Faber, Ronald and Vohs, Kathleen. "To Buy or Not to Buy?: Self-Control and Self-Regulatory Failure in Purchasing Behavior" in Baumeister, Roy and Vohs, Kathleen, eds. *Handbook of Self-Regulation: Research, Theory, and Applications*. New York: Guilford Press, 2004.
- [14] Fischer, Carolyn. "Read This Paper Later: Procrastination with Time-Consistent Preferences." *Journal of Economic Behavior and Organization*, 2001, 46(3), pp. 249-69.
- [15] Frank, Robert and Hutchens, Robert. "Wages, Seniority, and the Demand for Rising Consumption Profiles." *Journal of Economic Behavior and Organization*, 1993 21(3) pp. 251-276.
- [16] Frederick, Shane; Loewenstein, George and O'Donoghue, Ted "Time Discounting and Time Preference: A Critical Review." *Journal of Economic Literature*, 2002 40, pp. 350-401.
- [17] Fudenberg, Drew and Levine, David K. "A Dual Self Model of Impulse Control." Mimeo, UCLA, 2005.
- [18] Gilbert, Richard "Optimal Depletion of an Uncertain Stock." *Review of Economic Studies*, 1979, 46 (1), pp. 47-58
- [19] Gul, Faruk and Pesendorfer, Wolfgang. "Temptation and Self-Control." *Econometrica*, 2001, 69(6), pp. 1403-35.

- [20] Gul, Faruk and Pesendorfer, Wolfgang. "Self-Control and the Theory of Consumption." *Econometrica*, 2004a, 72(1), pp. 119-58.
- [21] Gul, Faruk and Pesendorfer, Wolfgang. "Harmful Addiction." Forthcoming *Review of Economic Studies*, 2004b.
- [22] Harrison, Glenn W.; Lau, Morten I., and Williams, Melonie B. (2002). "Estimating Individual Discount Rates in Denmark: A Field Experiment." *The American Economic Review*, Vol. 92(5): 1606-1617.
- [23] Hinson, John, Jameson, Tina, and Whitney, Paul. "Impulsive Decision Making and Working Memory." *Journal of Experimental Psychology: Learning, Memory, and Cognition*, 2003, 29(2):298-306.
- [24] Huffman, David and Barenstein, Matias. "Riches to Rags Every Month? The Fall in Consumption Expenditures Between Paydays." IZA Discussion Paper No. 1430, December 2004.
- [25] Kelly, Clare and Lanot, Gauthier. "Consumption Patterns Over Pay Periods." Warwick Economic Research Papers No. 656, November 2002.
- [26] Kniesner, Thomas J.; Viscusi, W. Kip, and Ziliak, James P. (2006). "Life-cycle Consumption and the Age-Adjusted Value of Life." B.E. Press, *Contributions to Economic Analysis & Policy*, Vol. 5 (1), Article 4.
- [27] Laibson, David. "Golden Eggs and Hyperbolic Discounting." *Quarterly Journal of Economics*, 1997, 112(2), pp.443-77.
- [28] Laibson, David. "A Cue-Theory of Consumption." *Quarterly Journal of Economics*, 2001, 116(1), pp.81-119.
- [29] Léonard, Daniel and Long, Ngo Van. *Optimal Control Theory and Static Optimization in Economics*. Cambridge, U.K.: Cambridge University Press, 1992.
- [30] Loewenstein, George. "Willpower: A Decision-Theorists's Perspective." *Law and Philosophy*, 2000, 19, pp. 51-76.
- [31] Loewenstein, George and O'Donoghue, Ted. "Animal Spirits: Affective and Deliberative Processes in Economic Behavior." Mimeo, Carnegie Mellon University, 2004.
- [32] Loewenstein, George and Prelec, Drazen. "Preferences for Sequences of Outcomes." *Psychological Review*, 1993, 100(1), pp. 91-108.

- [33] Loewenstein, George; Read, Daniel and Baumeister, Roy. "Introduction" in Loewenstein, George; Read, Daniel and Baumeister, Roy, eds. *Time and Decision: Economic and Psychological Perspectives on Intertemporal Choice*. New York: Russell Sage Foundation, 2003
- [34] Muraven, Mark. "Mechanisms of Self-Control Failure: Motivation and Limited Resource." Ph.D. Dissertation, Case Western Reserve University, 1998.
- [35] Muraven, Mark and Baumeister, Roy. "Self-Regulation and Depletion of Limited Resources: Does Self-Control Resemble a Muscle?" *Psychological Bulletin*, 2000; 126(2); pps. 247-259.
- [36] Muraven, Mark; Baumeister, Roy and Tice, Dianne. "Longitudinal Improvement of Self-Regulation Through Practice: Building Self-Control Strength Through Repeated Exercise." *Journal of Social Psychology*, 1999, 139(4), pp. 446-457.
- [37] O'Donoghue, Ted and Rabin, Matthew. "Doing It Now or Later." *American Economic Review*, 1999, 89(1), pp. 103-124.
- [38] Read, Daniel. "Subadditive Intertemporal Choice," in Loewenstein, George; Read, Daniel and Baumeister, Roy, eds. *Time and Decision: Economic and Psychological Perspectives on Intertemporal Choice*. New York: Russell Sage Foundation, 2003.
- [39] Rubinstein, Ariel "Economics and Psychology? The Case of Hyperbolic Discounting." *International Economic Review*, 2003, 44, pp. 1207-1216
- [40] Seierstad, Atle and Sydsæter, Knut. *Optimal Control Theory with Economic Applications*. Amsterdam: North Holland, 1987.
- [41] Shiv, Baba and Fedorikhin, Alexander. "Heart and Mind in Conflict: The Interplay of Affect and Cognition in Consumer Decision Making." *Journal of Consumer Research*, December 1999, 26(3):278-292.
- [42] Stephens, Melvin, Jr. "'3rd of tha Month': Do Social Security Recipients Smooth Consumption Between Checks." *American Economic Review*, 2003, 93(1):406-422.
- [43] Thaler, Richard and Shefrin, Hersh. "An Economic Theory of Self-Control," *Journal of Political Economy*, 1988, 89 392-406.
- [44] Twenge, Jean and Baumeister, Roy. "Self-Control: A Limited Yet Renewable Resource," in Kashima, Yoshihisa; Foddy, Margaret and Platow, Michael, eds. *Self and Identity: Personal, Social, and Symbolic*. Mahway, N.J.: Erlbaum, 2002.

- [45] Vohs, Kathleen and Faber, Ronald. "Spent Resources: Self-Regulation and Impulse Buying." Under review, 2004.
- [46] Wald, Matthew. "Voice Recorder Shows Pilots In '04 Crash Shirked Duties," *The New York Times*, January 25, 2006, A16.
- [47] Warner, John and Pleeter (2001). "The Personal Discount Rate: Evidence from Military Downsizing Programs." *The American Economic Review*, Vol. 91(1): 33-53.
- [48] Wegner, Daniel. *White Bears and Other Unwanted Thoughts: Suppression, Obsession, and the Psychology of Mental Control*. New York: The Guilford Press, 1994.