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# Consistent Rationalizability\*

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## Abstract

Consistency of a binary relation requires any preference cycle to involve indifference only. As shown by Suzumura (1976b), consistency is necessary and sufficient for the existence of an ordering extension of a binary relation. Because of this important role of consistency, it is of interest to examine the rationalizability of choice functions by means of consistent relations. We describe the logical relationships between the different notions of rationalizability obtained if reflexivity or completeness are added to consistency, both for greatest-element rationalizability and for maximal-element rationalizability. All but one notion of consistent rationalizability are characterized for general domains, and all of them are characterized for domains that contain all two-element subsets of the universal set. *Journal of Economic Literature* Classification No.: D11.

**Keywords:** Rational Choice, Revealed Preference, Consistency, Binary Domains.

# 1 Introduction

Rationalizability is an important issue in the analysis of economic decisions. It provides a means to test theories of choice, including—but not limited to—traditional consumer demand theory. The central question to be addressed is the following: are the observed choices of an economic agent compatible with our standard theories of choice as being motivated by optimizing behavior? More precisely, can we find a preference relation with suitably defined properties that generates the observed choices as the choice of greatest or maximal elements according to this relation? This question has its origin in the theory of consumer demand but has since been explored in more general contexts, including both individual and collective choice. By formulating necessary and sufficient conditions for the existence of a rationalizing relation, testable restrictions on observable choice behavior implied by the various theories are established.

Samuelson (1938) began his seminal paper on revealed preference theory with a remark that “[f]rom its very beginning the theory of consumer’s choice has marched steadily towards greater generality, sloughing off at successive stages unnecessarily restrictive conditions” (Samuelson, 1938, p. 61). Even after Samuelson (1938; 1947, Chapter V; 1948; 1950) laid the foundations of “the theory of consumer’s behaviour freed from any vestigial traces of the utility concept” (Samuelson, 1938, p. 71), the exercise of Ockham’s razor persisted within revealed preference theory. Capitalizing on Georgescu-Roegen’s (1954, p. 125; 1966, p. 222) observation that the intuitive justification of the axioms of revealed preference theory has nothing to do with the special form of budget sets but, instead, is based on the implicit consideration of choices from two-element sets, Arrow (1959) expanded the analysis of rational choice and revealed preference beyond consumer choice problems. He pointed out that “the demand-function point of view would be greatly simplified if the range over which the choice functions are considered to be determined is

broadened to include all finite sets” (Arrow, 1959, p. 122). Sen (1971, p. 312) defended Arrow’s domain assumption by posing two important questions: “why assume the axioms [of revealed preference] to be true only for ‘budget sets’ and not for others?” and “[a]re there reasons to expect that some of the rationality axioms will tend to be satisfied in choices over ‘budget sets’ but not for other choices?”

While it is certainly desirable to liberate revealed preference theory from the narrow confinement of budget sets, the admission of all finite subsets of the universal sets into the domain of a choice function may well be unsuitable for many applications. In this context, two important groups of contributions stand out. In the first place, Richter (1966; 1971), Hansson (1968) and Suzumura (1976a; 1977; 1983, Chapter 2) developed the theory of rational choice and revealed preference for choice functions with general non-empty domains which do not impose any extraneous restrictions whatsoever on the class of feasible sets. In the second place, Sen (1971) showed that Arrow’s results (as well as others with similar features) do not hinge on the full power of the assumption that *all* finite sets are included in the domain of a choice function—it suffices if the domain contains all two-element and three-element sets.

It was in view of this current state of the art that Bossert, Sprumont and Suzumura (2001) examined two crucial types of domains in an analysis of several open questions in the theory of rational choice. The first is the general domain à la Richter, Hansson and Suzumura, and the second is the class of *base domains* which include all singletons and all two-element subsets of the universal set. The status of the general domain seems to be impeccable, as the theory developed on this domain is relevant in whatever choice situations we may care to specify. The base domains also seem to be on safe ground, as the concept of rational choice as maximizing choice is intrinsically connected with pairwise comparisons: singletons can be viewed as pairs with identical components, whereas two-

element sets represent pairs of distinct alternatives. As Arrow (1951, p. 16; 1963) put it, “one of the consequences of the assumptions of rational choice is that the choice in any environment can be determined by a knowledge of the choices in two-element environments.”

In this paper, we focus on the rationalizability of choice functions by means of *consistent* relations. The concept of consistency was first introduced by Suzumura (1976b), and it is a weakening of transitivity requiring that any preference cycle should involve indifference only. As was shown by Suzumura (1976b; 1983, Chapter 1), consistency is necessary and sufficient for the existence of an ordering extension of a binary relation. For that reason, consistency is a central property for the analysis of rational choice as well: in order to obtain a rationalizing relation that is an ordering, an extension procedure is, in general, required in order to ensure that the rationalization is complete. Violations of transitivity are quite likely to be observed in practical choice situations. For instance, Luce’s (1956) well-known coffee-sugar example provides a plausible argument against assuming that indifference is always transitive: the inability of a decision maker to perceive ‘small’ differences in alternatives is bound to lead to intransitivities. As this example illustrates, transitivity frequently is too strong an assumption to impose in the context of individual choice. In collective choice problems, it is even more evident that the plausibility of transitivity can be questioned. On the other hand, it is difficult to interpret observed choices as ‘rational’ if they do not possess any coherence property. Because of Suzumura’s (1976b) result, consistency can be considered a weakening of transitivity that is minimal in the sense that it cannot be weakened further without abandoning all hope of finding a rationalizing ordering extension.

To further underline the importance of consistency, note that this property is precisely what is required to prevent the problem of a ‘money pump.’ If consistency is violated,

there exists a preference cycle with at least one strict preference. In this case, the agent under consideration is willing to trade an alternative  $x_0$  for another alternative  $x_1$  (where ‘willingness to trade’ is to be interpreted as being at least as well-off after the trade as before),  $x_1$  for an alternative  $x_2$  and so on until we reach an alternative  $x_K$  such that the agent *strictly prefers* getting back  $x_0$  to retaining possession of  $x_K$ . Thus, at the end of a chain of exchanges, the agent is willing to pay a positive amount in order to get back the alternative it had in its possession in the first place—a classical example of a money pump.

We examine consistent rationalizability under two domain assumptions. The first is, again, the general domain assumption where no restrictions whatsoever are imposed, and the second weakens the base domain hypothesis: we merely require the domain to contain all two-element sets but not necessarily all singletons, and we refer to those domains as *binary domains*. Thus, our results are applicable in a wide range of choice problems. Unlike many contributions to the theory of rational choice, we do not have to assume that triples are part of the domain. Especially the first domain assumption—the general domain—is highly relevant because it can accommodate any choice situation that arises in the analysis of both individual and collective choice. For instance, our results are applicable in traditional demand theory but in more general environments as well.

Depending on the additional properties that can be imposed on rationalizations (reflexivity and completeness), different notions of consistent rationalizability can be defined. We characterize all but one of those notions in the general case, and all of them in the case of binary domains. It is worth noting that we obtain full characterization results on binary domains (in particular, on domains that do not have to contain any triples), even though consistency imposes a restriction on possible cycles of any length.

In Section 2, the notation and our basic definitions are presented, along with some

preliminary lemmas. Section 3 develops the theory of consistent rationalizability on general domains, whereas Section 4 expounds the corresponding theory on binary domains. Some concluding remarks are collected in Section 5.

## 2 Preliminaries

The set of positive (non-negative) integers is denoted by  $\mathbb{N}$  ( $\mathbb{N}_0$ ). For a set  $S$ ,  $|S|$  is the cardinality of  $S$ . Let  $X$  be a universal non-empty set of alternatives.  $\mathcal{X}$  is the power set of  $X$  excluding the empty set. A choice function is a mapping  $C: \Sigma \rightarrow \mathcal{X}$  such that  $C(S) \subseteq S$  for all  $S \in \Sigma$ , where  $\Sigma \subseteq \mathcal{X}$  with  $\Sigma \neq \emptyset$  is the domain of  $C$ . Note that  $C$  maps  $\Sigma$  into the set of all *non-empty* subsets of  $X$ . Thus, using Richter's (1971) terminology, the choice function  $C$  is assumed to be *decisive*. Let  $C(\Sigma)$  denote the image of  $\Sigma$  under  $C$ , that is,  $C(\Sigma) = \cup_{S \in \Sigma} C(S)$ . In addition to arbitrary non-empty domains, to be called *general domains*, we consider *binary domains* which are domains  $\Sigma \subseteq \mathcal{X}$  such that  $\{S \in \mathcal{X} \mid |S| = 2\} \subseteq \Sigma$ .

Let  $R \subseteq X \times X$  be a (binary) relation on  $X$ . The asymmetric factor  $P(R)$  of  $R$  is given by  $(x, y) \in P(R)$  if and only if  $(x, y) \in R$  and  $(y, x) \notin R$  for all  $x, y \in X$ . The symmetric factor  $I(R)$  of  $R$  is defined by  $(x, y) \in I(R)$  if and only if  $(x, y) \in R$  and  $(y, x) \in R$  for all  $x, y \in X$ . The non-comparable factor  $N(R)$  of  $R$  is given by  $(x, y) \in N(R)$  if and only if  $(x, y) \notin R$  and  $(y, x) \notin R$  for all  $x, y \in X$ .

A relation  $R \subseteq X \times X$  is (i) *reflexive* if, for all  $x \in X$ ,  $(x, x) \in R$ ; (ii) *complete* if, for all  $x, y \in X$  such that  $x \neq y$ ,  $(x, y) \in R$  or  $(y, x) \in R$ ; (iii) *transitive* if, for all  $x, y, z \in X$ ,  $[(x, y) \in R \text{ and } (y, z) \in R]$  implies  $(x, z) \in R$ ; (iv) *consistent* if, for all  $K \in \mathbb{N} \setminus \{1\}$  and for all  $x^0, \dots, x^K \in X$ ,  $(x^{k-1}, x^k) \in R$  for all  $k \in \{1, \dots, K\}$  implies  $(x^K, x^0) \notin P(R)$ ; (v) *P-acyclical* if, for all  $K \in \mathbb{N} \setminus \{1\}$  and for all  $x^0, \dots, x^K \in X$ ,  $(x^{k-1}, x^k) \in P(R)$  for all



$k \in \{1, \dots, K\}$  implies  $(x^K, x^0) \notin P(R)$ .

The *transitive closure* of  $R \subseteq X \times X$  is denoted by  $\overline{R}$ , that is, for all  $x, y \in X$ ,  $(x, y) \in \overline{R}$  if there exist  $K \in \mathbb{N}$  and  $x^0, \dots, x^K \in X$  such that  $x = x^0$ ,  $(x^{k-1}, x^k) \in R$  for all  $k \in \{1, \dots, K\}$  and  $x^K = y$ . Clearly,  $\overline{R}$  is transitive and, because we can set  $K = 1$ , it follows that  $R \subseteq \overline{R}$ . For future reference, we state the following well-known result the proof of which is straightforward and thus omitted (see Suzumura, 1983, pp. 11–12).

**Lemma 1** *Let  $R$  and  $Q$  be binary relations on  $X$ . If  $R \subseteq Q$ , then  $\overline{R} \subseteq \overline{Q}$ .*

The *direct revealed preference relation*  $R_C \subseteq X \times X$  of a choice function  $C$  with an arbitrary domain  $\Sigma$  is defined as follows. For all  $x, y \in X$ ,  $(x, y) \in R_C$  if there exists  $S \in \Sigma$  such that  $x \in C(S)$  and  $y \in S$ . The *(indirect) revealed preference relation* of  $C$  is the transitive closure  $\overline{R_C}$  of the direct revealed preference relation  $R_C$ .

For  $S \in \Sigma$  and a relation  $R \subseteq X \times X$ , the set of  $R$ -greatest elements in  $S$  is  $\{x \in S \mid (x, y) \in R \text{ for all } y \in S\}$ , and the set of  $R$ -maximal elements in  $S$  is  $\{x \in S \mid (y, x) \notin P(R) \text{ for all } y \in S\}$ . A choice function  $C$  is greatest-element rationalizable if there exists a relation  $R$  on  $X$ , to be called a *G-rationalization*, such that  $C(S)$  is equal to the set of  $R$ -greatest elements in  $S$  for all  $S \in \Sigma$ .  $C$  is maximal-element rationalizable if there exists a relation  $R$  on  $X$ , to be called an *M-rationalization*, such that  $C(S)$  is equal to the set of  $R$ -maximal elements in  $S$  for all  $S \in \Sigma$ . We use the term *rationalization* in general discussions where it is not specified whether greatest-element rationalizability or maximal-element rationalizability is considered.

If a rationalization is required to be reflexive and complete, the notions of greatest-element rationalizability and that of maximal-element rationalizability coincide. Without these properties, however, this is not necessarily the case. Greatest-element rationalizability is based on the idea of chosen alternative weakly dominating all alternatives in the feasible set under consideration, whereas maximal-element rationalizability requires

chosen elements not to be strictly dominated by any other feasible alternative. Specific examples illustrating the differences between those two concepts will be discussed later.

Depending on the properties that we might want to impose on a rationalization, different notions of rationalizability can be defined. For simplicity of presentation, we use the following notation. **G** (respectively **RG**; **CG**; **RCG**) stands for greatest-element rationalizability by means of a consistent (respectively reflexive and consistent; complete and consistent; reflexive, complete and consistent) G-rationalization. Analogously, **M** (respectively **RM**; **CM**; **RCM**) is maximal-element rationalizability by means of a consistent (respectively reflexive and consistent; complete and consistent; reflexive, complete and consistent) M-rationalization. Note that we do not identify consistency explicitly in these acronyms even though it is assumed to be satisfied by the rationalization in question. This is because consistency is required in all of the theorems presented in this paper, so that the use of another piece of notation would be redundant and likely increase the complexity of our exposition. However, note that the two lemmas stated below do not require consistency. In particular, the implication of part (i) of Lemma 3 does not apply to rationalizability by a consistent relation; see also Theorem 1.

We conclude this section with two further preliminary results. We first present the following lemma, the first part of which is due to Samuelson (1938; 1948); see also Richter (1971). It states that the direct revealed preference relation must be contained in any G-rationalization and, moreover, that if an alternative  $x$  is directly revealed preferred to an alternative  $y$ , then  $y$  cannot be strictly preferred to  $x$  by any M-rationalization.

**Lemma 2** (i) *If  $R$  is a G-rationalization of  $C$ , then  $R_C \subseteq R$ .*

(ii) *If  $R$  is an M-rationalization of  $C$ , then  $R_C \subseteq R \cup N(R)$ .*

**Proof.** (i) Suppose that  $R$  is a G-rationalization of  $C$  and  $x, y \in X$  are such that  $(x, y) \in R_C$ . By definition of  $R_C$ , there exists  $S \in \Sigma$  such that  $x \in C(S)$  and  $y \in S$ .

Because  $R$  is a G-rationalization of  $C$ , we obtain  $(x, y) \in R$ .

(ii) Suppose  $R$  is an M-rationalization of  $C$  and  $x, y \in X$  are such that  $(x, y) \in R_C$ . By way of contradiction, suppose  $(x, y) \notin R \cup N(R)$ . Therefore,  $(y, x) \in P(R)$ . Because  $R$  maximal-element rationalizes  $C$ , this implies  $x \notin C(S)$  for all  $S \in \Sigma$  such that  $y \in S$ . But this contradicts the hypothesis  $(x, y) \in R_C$ . ■

Our final preliminary observation concerns the relationship between maximal-element rationalizability and greatest-element rationalizability when no further restrictions are imposed on a rationalization. This applies, in particular, when consistency is not imposed. Moreover, an axiom which is necessary for either form of rationalizability is presented. This requirement is referred to as the V-axiom in Richter (1971); we call it direct-revelation coherence in order to have a systematic terminology throughout this paper.

**Direct-Revelation Coherence:** For all  $S \in \Sigma$ , for all  $x \in S$ , if  $(x, y) \in R_C$  for all  $y \in S$ , then  $x \in C(S)$ .

Suzumura (1976a) establishes that, in the absence of any requirements on a rationalization, maximal-element rationalizability implies greatest-element rationalizability. Furthermore, Richter (1971) shows that direct-revelation coherence is necessary for greatest-element rationalizability by an arbitrary G-rationalization on an arbitrary domain. We summarize these observations in the following lemma. For completeness, we provide a proof.

**Lemma 3** (i) *If  $C$  is maximal-element rationalizable, then  $C$  is greatest-element rationalizable.*

(ii) *If  $C$  is greatest-element rationalizable, then  $C$  satisfies direct-revelation coherence.*

**Proof.** (i) Suppose  $R$  is an M-rationalization of  $C$ . It is straightforward to verify that  $R' = \{(x, y) \mid (y, x) \notin P(R)\}$  is a G-rationalization of  $C$ .

(ii) Suppose  $R$  is a G-rationalization of  $C$ , and let  $S \in \Sigma$  and  $x \in S$  be such that  $(x, y) \in R_C$  for all  $y \in S$ . By part (i) of Lemma 2,  $(x, y) \in R$  for all  $y \in S$ . Because  $R$  is a G-rationalization of  $C$ , this implies  $x \in C(S)$ . ■

There are alternative notions of rationality such as that of Kim and Richter (1986) who proposed the concept of *motivated choice*:  $C$  is a motivated choice if there exist a relation  $R$  on  $X$ , which is to be called a *motivation* of  $C$ , such that

$$C(S) = \{x \in S \mid (y, x) \notin R \text{ for all } y \in S\}$$

for all  $S \in \Sigma$ . This property is implied by maximal-element rationalizability but the converse implication is not true. Moreover,  $C$  is a motivated choice if and only if  $C$  is greatest-element rationalizable. Indeed,  $R$  greatest-element rationalizes  $C$  if and only if its dual  $R^d$ , defined by

$$(x, y) \in R^d \Leftrightarrow (y, x) \notin R$$

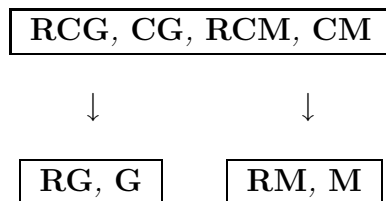
for all  $x, y \in X$ , is a motivation of  $C$ .

Richter (1971) shows that direct-revelation coherence is not only necessary but also sufficient for greatest-element rationalizability on an arbitrary domain, without any further restrictions imposed on the G-rationalization. Moreover, the axiom is necessary and sufficient for greatest-element rationalizability by a reflexive (but otherwise unrestricted) rationalization on an arbitrary domain. The requirement remains, of course, necessary for greatest-element rationalizability if we restrict attention to binary domains. As shown below, if we add consistency as a requirement on a rationalization, direct-revelation coherence by itself is sufficient for neither greatest-element rationalizability nor for maximal-element rationalizability, even on binary domains.

### 3 General Domains

In this section, we impose no restrictions on the domain  $\Sigma$ . We begin our analysis by providing a full description of the logical relationships between the different notions of rationalizability that can be defined, given our consistency assumption imposed on a rationalization. The possible definitions of rationalizability that can be obtained depend on whether reflexivity or completeness are added to consistency. Furthermore, a distinction between greatest-element rationalizability and maximal-element rationalizability is made. For convenience, a diagrammatic representation is employed: all axioms that are depicted within the same box are equivalent, and an arrow pointing from one box  $b$  to another box  $b'$  indicates that the axioms in  $b$  imply those in  $b'$ , and no further implications are true without additional assumptions regarding the domain of  $C$ .

**Theorem 1** *Suppose  $\Sigma$  is a general domain. Then*



**Proof.** We proceed as follows. In Step 1, we prove the equivalence of all axioms that appear in the same box. In Step 2, we show that all implications depicted in the theorem statement are valid. In Step 3, we provide examples demonstrating that no further implications are true in general.

**Step 1.** For each of the three boxes, we show that all axioms listed in the box are equivalent.

**1.a.** We first prove the equivalence of the axioms in the top box.

Clearly, **RCG** implies **CG** and **RCM** implies **CM**. Moreover, if a relation  $R$  is reflexive and complete, it follows that the set of  $R$ -greatest elements in  $S$  is equal to the set of  $R$ -maximal elements in  $S$  for any  $S \in \Sigma$ . Therefore, **RCG** and **RCM** are equivalent.

To see that **CM** implies **RCM**, suppose  $R$  is a consistent and complete M-rationalization of  $C$ . Let

$$R' = R \cup \{(x, x) \mid x \in X\}.$$

Clearly,  $R'$  is reflexive.  $R'$  is consistent and complete because  $R$  is. That  $R'$  is an M-rationalization of  $C$  follows immediately from the observation that  $R$  is.

To complete Step 1.a of the proof, it is sufficient to show that **CG** implies **RCG**. Suppose  $R$  is a consistent and complete G-rationalization of  $C$ . Let

$$\begin{aligned} R' = & [R \cup \{(x, x) \mid x \in X\} \cup \{(y, x) \mid x \notin C(\Sigma) \text{ and } y \in C(\Sigma)\}] \\ & \setminus \{(x, y) \mid x \notin C(\Sigma) \text{ and } y \in C(\Sigma)\}. \end{aligned}$$

Clearly,  $R'$  is reflexive by definition.

To show that  $R'$  is complete, let  $x, y \in X$  be such that  $x \neq y$  and  $(x, y) \notin R'$ . By definition of  $R'$ , this implies

$$(x, y) \notin R \text{ and } [x \notin C(\Sigma) \text{ or } y \in C(\Sigma)]$$

or

$$x \notin C(\Sigma) \text{ and } y \in C(\Sigma).$$

If the former applies, the completeness of  $R$  implies  $(y, x) \in R$  and, by definition of  $R'$ , we obtain  $(y, x) \in R'$ . If the latter is true,  $(y, x) \in R'$  follows immediately from the definition of  $R'$ .

Next, we show that  $R'$  is consistent. Let  $K \in \mathbb{N} \setminus \{1\}$  and  $x^0, \dots, x^K \in X$  be such that  $(x^{k-1}, x^k) \in R'$  for all  $k \in \{1, \dots, K\}$ . Clearly, we can, without loss of generality, assume that  $x^{k-1} \neq x^k$  for all  $k \in \{1, \dots, K\}$ . We distinguish two cases.

(i)  $x^0 \notin C(\Sigma)$ . In this case, it follows that  $x^1 \notin C(\Sigma)$ ; otherwise we would have  $(x^1, x^0) \in P(R')$  by definition of  $R'$ , contradicting our hypothesis. Successively applying this argument to all  $k \in \{1, \dots, K\}$ , we obtain  $x^k \notin C(\Sigma)$  for all  $k \in \{1, \dots, K\}$ . By definition of  $R'$ , this implies  $(x^{k-1}, x^k) \in R$  for all  $k \in \{1, \dots, K\}$ . By the consistency of  $R$ , we must have  $(x^K, x^0) \notin P(R)$ . Because  $x^K \notin C(\Sigma)$ , this implies, according to the definition of  $R'$ ,  $(x^K, x^0) \notin P(R')$ .

(ii)  $x^0 \in C(\Sigma)$ . If  $x^K \notin C(\Sigma)$ ,  $(x^K, x^0) \notin P(R')$  follows immediately from the definition of  $R'$ . If  $x^K \in C(\Sigma)$ , it follows that  $x^{K-1} \in C(\Sigma)$ ; otherwise we would have  $(x^{K-1}, x^K) \notin R'$  by definition of  $R'$ , contradicting our hypothesis. Successively applying this argument to all  $k \in \{1, \dots, K\}$ , we obtain  $x^k \in C(\Sigma)$  for all  $k \in \{1, \dots, K\}$ . By definition of  $R'$ , this implies  $(x^{k-1}, x^k) \in R$  for all  $k \in \{1, \dots, K\}$ . By the consistency of  $R$ , we must have  $(x^K, x^0) \notin P(R)$ . Because  $x^0 \in C(\Sigma)$ , this implies, according to the definition of  $R'$ ,  $(x^K, x^0) \notin P(R')$ .

Finally, we show that  $R'$  is a G-rationalization of  $C$ . Let  $S \in \Sigma$  and  $x \in S$ .

Suppose first that  $(x, y) \in R'$  for all  $y \in S$ . If  $|S| = 1$ ,  $x \in C(S)$  follows immediately because  $C(S)$  is non-empty. If  $|S| \geq 2$ , we obtain  $x \in C(\Sigma)$ . Because  $R$  is a G-rationalization of  $C$ , this implies  $(x, x) \in R$ . By definition of  $R'$ ,  $(x, z) \in R$  for all  $z \in C(S)$ . Therefore,  $(x, z) \in R$  for all  $z \in C(S) \cup \{x\}$ . Suppose, by way of contradiction, that  $x \notin C(S)$ . Because  $R$  is a G-rationalization of  $C$ , it follows that there exists  $y \in S \setminus (C(S) \cup \{x\})$  such that  $(x, y) \notin R$ . The completeness of  $R$  implies  $(y, x) \in P(R)$ . Let  $z \in C(S)$ . It follows that  $(z, y) \in R$  because  $R$  is a G-rationalization of  $C$  and, as established earlier,  $(x, z) \in R$ . This contradicts the consistency of  $R$ .

To prove the converse implication, suppose  $x \in C(S)$ . Because  $R$  is a G-rationalization of  $C$ , we have  $(x, y) \in R$  for all  $y \in S$ . In particular, this implies  $(x, x) \in R$  and, according to the definition of  $R'$ , we obtain  $(x, y) \in R'$  for all  $y \in S$ .

**1.b.** The proof that **RM** and **M** are equivalent is analogous to the proof of the equivalence of **RCM** and **CM** in Step 1.a.

**1.c.** Clearly, **RG** implies **G**. Conversely, suppose  $R$  is a consistent  $G$ -rationalization of  $C$ . Let

$$R' = (R \cup \{(x, x) \mid x \in X\}) \setminus \{(x, y) \mid x \notin C(\Sigma) \text{ and } x \neq y\}.$$

Clearly,  $R'$  is reflexive.

Next, we prove that  $R'$  is consistent. Let  $K \in \mathbb{N} \setminus \{1\}$  and  $x^0, \dots, x^K \in X$  be such that  $(x^{k-1}, x^k) \in R'$  for all  $k \in \{1, \dots, K\}$ . Again, we can assume that  $x^{k-1} \neq x^k$  for all  $k \in \{1, \dots, K\}$ . By definition of  $R'$ ,  $x^0 \in C(\Sigma)$ . The rest of the proof follows as in part (ii) of the consistency of the relation  $R'$  in Step 1.a.

It remains to be shown that  $R'$  is a  $G$ -rationalization of  $C$ . Let  $S \in \Sigma$  and  $x \in S$ .

First, suppose  $(x, y) \in R'$  for all  $y \in S$ . By definition of  $R'$ ,  $(x, y) \in R$  for all  $y \in S \setminus \{x\}$ . Analogously to the corresponding argument in Step 1.a, the assumption  $x \notin C(S)$  implies the existence of  $y \in S \setminus (C(S) \cup \{x\})$  such that  $(x, y) \notin R$ , a contradiction.

Finally, suppose  $x \in C(S)$ . This implies  $(x, y) \in R$  for all  $y \in S$  because  $R$  is a  $G$ -rationalization of  $C$ . Furthermore, because  $C(S) \subseteq C(\Sigma)$ , we have  $x \in C(\Sigma)$ . By definition of  $R'$ , this implies  $(x, y) \in R'$  for all  $y \in S$ .

**Step 2.** The implications corresponding to the arrows in the theorem statement are straightforward.

**Step 3.** Given Steps 1 and 2, to prove that no further implications are valid, it is sufficient to provide examples showing that (a) **M** does not imply **G**; and (b) **G** does not imply **M**. Note that this independence of **M** and **G** in the presence of consistency does not contradict part (i) of Lemma 3—consistency is not required in the lemma.

**3.a.** **M** does not imply **G**.

**Example 1** Let  $X = \{x, y, z\}$  and  $\Sigma = \{\{x, y\}, \{x, z\}, \{y, z\}\}$ . For future reference,



note that  $\Sigma$  is a binary domain. Define the choice function  $C$  by letting  $C(\{x, y\}) = \{x, y\}$ ,  $C(\{x, z\}) = \{x, z\}$  and  $C(\{y, z\}) = \{y\}$ . This choice function is maximal-element rationalizable by the consistent (and reflexive) rationalization

$$R = \{(x, x), (y, y), (y, z), (z, z)\}.$$

Suppose  $C$  is greatest-element rationalizable by a consistent rationalization  $R'$ . Because  $C(\Sigma) = X$ , greatest-element rationalizability implies that  $R'$  is reflexive. Therefore, because  $y \in C(\{y, z\})$  and  $z \notin C(\{y, z\})$ , we must have  $(y, z) \in R'$  and  $(z, y) \notin R'$ . Therefore,  $(y, z) \in P(R')$ . Because  $R'$  is a  $G$ -rationalization of  $C$ ,  $z \in C(\{x, z\})$  implies  $(z, x) \in R'$  and  $x \in C(\{x, y\})$  implies  $(x, y) \in R'$ . This yields a contradiction to the assumption that  $R'$  is consistent.

**3.b.** To prove that **G** does not imply **M**, we employ an example due to Suzumura (1976a, pp. 151–152).

**Example 2** Let  $X = \{x, y, z\}$  and  $\Sigma = \{\{x, y\}, \{x, z\}, \{x, y, z\}\}$ , and define  $C(\{x, y\}) = \{x, y\}$ ,  $C(\{x, z\}) = \{x, z\}$  and  $C(\{x, y, z\}) = \{x\}$ . This choice function is greatest-element rationalizable by the consistent (and reflexive) rationalization

$$R = \{(x, x), (x, y), (x, z), (y, x), (y, y), (z, x), (z, z)\}.$$

Suppose  $R'$  is an  $M$ -rationalization of  $C$ . Because  $z \in C(\{x, z\})$ , maximal-element rationalizability implies  $(x, z) \notin P(R')$  and, consequently,  $z \notin C(\{x, y, z\})$  implies  $(y, z) \in P(R')$ . Analogously,  $y \in C(\{x, y\})$  implies, together with maximal-element rationalizability,  $(x, y) \notin P(R')$  and, consequently,  $y \notin C(\{x, y, z\})$  implies  $(z, y) \in P(R')$ . But this contradicts the above observation that we must have  $(y, z) \in P(R')$ . Note that consistency (or any other property) of  $R'$  is not invoked in the above argument. Moreover,  $R$  is reflexive. Thus, **RG** does not even imply maximal-element rationalizability by an arbitrary rationalization. ■

We now provide characterizations of two of the three notions of rationalizability identified in the above theorem. The first is a straightforward consequence of Richter's (1966) result and the observation that consistency is equivalent to transitivity in the presence of reflexivity and completeness. Richter (1966) shows that the *congruence* axiom is necessary and sufficient for greatest-element rationalizability by a transitive, reflexive and complete rationalization. Congruence is defined as follows.

**Congruence:** For all  $x, y \in X$ , for all  $S \in \Sigma$ , if  $(x, y) \in \overline{R_C}$ ,  $y \in C(S)$  and  $x \in S$ , then  $x \in C(S)$ .

We obtain

**Theorem 2** *C satisfies RCG if and only if C satisfies congruence.*

**Proof.** As is straightforward to verify, a relation is consistent, reflexive and complete if and only if it is transitive, reflexive and complete. The result now follows immediately from the equivalence of congruence and greatest-element rationalizability by a transitive, reflexive and complete rationalization established by Richter (1966). ■

In order to characterize **G** (and, therefore, **RG**; see Theorem 1), we employ the *consistent closure* of the direct revealed preference relation  $R_C$ . The consistent closure of a relation  $R$  is analogous to the transitive closure: the idea is to add all pairs to the relation  $R$  that must be in a G-rationalizing relation due to the requirement that the rationalization be consistent. Define the consistent closure  $R^*$  of  $R$  by

$$R^* = R \cup \{(x, y) \mid (x, y) \in \overline{R} \text{ and } (y, x) \in R\}.$$

Clearly,  $R \subseteq R^*$ . To illustrate the definition of the consistent closure and its relationship to the transitive closure, consider the following examples.

**Example 3** Let  $X = \{x, y, z\}$  and  $R = \{(x, x), (x, y), (y, y), (y, z), (z, x), (z, z)\}$ . We obtain  $R^* = \overline{R} = X \times X$ .

**Example 4** Let  $X = \{x, y, z\}$  and  $R = \{(x, y), (y, z)\}$ . We have  $R^* = R$  and  $\overline{R} = \{(x, y), (y, z), (x, z)\}$ .

In Example 3, the consistent closure coincides with the transitive closure, whereas in Example 4, the consistent closure is a strict subset of the transitive closure. More generally,  $R^*$  is always a subset of  $\overline{R}$ ; see Lemma 4 below. Moreover, the lemma establishes an important property of  $R^*$ : just as  $\overline{R}$  is the smallest transitive relation containing  $R$ ,  $R^*$  is the smallest consistent relation containing  $R$ .

**Lemma 4** Let  $R$  be a binary relation on  $X$ .

(i)  $R^* \subseteq \overline{R}$ .

(ii)  $R^*$  is the smallest consistent relation containing  $R$ .

**Proof.** (i) Suppose that  $(x, y) \in R^*$ . By definition,

$$(x, y) \in R \text{ or } [(x, y) \in \overline{R} \text{ and } (y, x) \in R].$$

If  $(x, y) \in R$ ,  $(x, y) \in \overline{R}$  follows because  $R \subseteq \overline{R}$ . If  $[(x, y) \in \overline{R} \text{ and } (y, x) \in R]$ ,  $(x, y) \in \overline{R}$  is implied trivially.

(ii) We first prove that  $R^*$  is consistent. Suppose  $K \in \mathbb{N} \setminus \{1\}$  and  $x^0, \dots, x^K \in X$  are such that  $(x^{k-1}, x^k) \in R^*$  for all  $k \in \{1, \dots, K\}$ . We show that  $(x^K, x^0) \notin P(R^*)$ . By part (i) of the lemma,  $(x^{k-1}, x^k) \in \overline{R}$  for all  $k \in \{1, \dots, K\}$ , and the transitivity of  $\overline{R}$  implies

$$(x^0, x^K) \in \overline{R}. \tag{1}$$

If  $(x^K, x^0) \notin R^*$ , we immediately obtain  $(x^K, x^0) \notin P(R^*)$  and we are done. Now suppose that  $(x^K, x^0) \in R^*$ . By definition of  $R^*$ , we must have

$$(x^K, x^0) \in R \text{ or } [(x^K, x^0) \in \overline{R} \text{ and } (x^0, x^K) \in R].$$

If  $(x^K, x^0) \in R$ , (1) and the definition of  $R^*$  together imply  $(x^0, x^K) \in R^*$  and, thus,  $(x^K, x^0) \notin P(R^*)$ . If  $(x^K, x^0) \in \overline{R}$  and  $(x^0, x^K) \in R$ ,  $(x^0, x^K) \in R^*$  follows because  $R \subseteq R^*$ . Again, this implies  $(x^K, x^0) \notin P(R^*)$  and the proof that  $R^*$  is consistent is complete.

To show that  $R^*$  is the smallest consistent relation containing  $R$ , suppose that  $Q$  is an arbitrary consistent relation containing  $R$ . To complete the proof, we establish that  $R^* \subseteq Q$ . Suppose that  $(x, y) \in R^*$ . By definition of  $R^*$ ,

$$(x, y) \in R \text{ or } [(x, y) \in \overline{R} \text{ and } (y, x) \in R].$$

If  $(x, y) \in R$ ,  $(x, y) \in Q$  follows because  $R$  is contained in  $Q$  by assumption. If  $(x, y) \in \overline{R}$  and  $(y, x) \in R$ , Lemma 1 and the assumption  $R \subseteq Q$  together imply that  $(x, y) \in \overline{Q}$  and  $(y, x) \in Q$ . If  $(x, y) \notin Q$ , we obtain  $(y, x) \in P(Q)$  in view of  $(y, x) \in Q$ . Since  $(x, y) \in \overline{Q}$ , this contradicts the consistency of  $Q$ . Therefore, we must have  $(x, y) \in Q$ . ■

Analogously to Lemma 2 (i), we obtain

**Lemma 5** *If  $R$  is a consistent G-rationalization of  $C$ , then  $R_C^* \subseteq R$ .*

**Proof.** Suppose that  $R$  is a consistent G-rationalization of  $C$  and  $(x, y) \in R_C^*$ . By definition,

$$(x, y) \in R_C \text{ or } [(x, y) \in \overline{R_C} \text{ and } (y, x) \in R_C].$$

If  $(x, y) \in R_C$ , Lemma 2 implies  $(x, y) \in R$ . If  $(x, y) \in \overline{R_C}$  and  $(y, x) \in R_C$ , Lemmas 2 and 1 together imply  $(x, y) \in \overline{R}$  and  $(y, x) \in R$ . If  $(x, y) \notin R$ , it follows that  $(y, x) \in P(R)$  in view of  $(y, x) \in R$ . Because  $(x, y) \in \overline{R}$ , this contradicts the consistency of  $R$ . Therefore,  $(x, y) \in R$ . ■

Part (ii) of Lemma 2 does not generalize in an analogous fashion. To see this, consider again Example 1. We have  $R_C^* = X \times X$  and, therefore,  $(z, y) \in R_C^*$ . But  $(y, z) \in P(R)$

according to the consistent M-rationalization  $R$  defined in the example, and it follows that  $R_C^* \not\subseteq R \cup N(R)$ .

The following axiom is a strengthening of direct-revelation coherence which we call consistent-closure coherence. It is obtained by replacing  $R_C$  with its consistent closure  $R_C^*$  in the definition of direct-revelation coherence.

**Consistent-Closure Coherence:** For all  $S \in \Sigma$ , for all  $x \in S$ , if  $(x, y) \in R_C^*$  for all  $y \in S$ , then  $x \in C(S)$ .

We now obtain

**Theorem 3**  *$C$  satisfies  $\mathbf{G}$  if and only if  $C$  satisfies consistent-closure coherence.*

**Proof.** To prove the only-if part of the theorem, suppose  $R$  is a consistent G-rationalization of  $C$  and let  $S \in \Sigma$  and  $x \in S$  be such that  $(x, y) \in R_C^*$  for all  $y \in S$ . By Lemma 5,  $(x, y) \in R$  for all  $y \in S$ . Thus, because  $R$  is a G-rationalization of  $C$ ,  $x \in C(S)$ .

Now suppose  $C$  satisfies consistent-closure coherence. We complete the proof by showing that  $R_C^*$  is a consistent G-rationalization of  $C$ . That  $R_C^*$  is consistent follows from Lemma 4. To prove that  $R_C^*$  is a G-rationalization of  $C$ , suppose first that  $S \in \Sigma$  and  $x \in S$ . Suppose  $(x, y) \in R_C^*$  for all  $y \in S$ . Consistent-closure coherence implies  $x \in C(S)$ . Conversely, suppose  $x \in C(S)$ . By definition, this implies  $(x, y) \in R_C$  for all  $y \in S$  and, because  $R_C \subseteq R_C^*$ , we obtain  $(x, y) \in R_C^*$  for all  $y \in S$ . ■

## 4 Binary Domains

We now turn to the special case of binary domains. These domains are of interest because they represent a natural weakening of some domains studied in the earlier literature on rational choice. In particular, the binary-domain assumption is implied by the requirement

that  $\Sigma$  contains all non-empty and finite subsets of  $X$ , by the assumption that the domain contains all pairs and all triples and by the requirement that  $\Sigma$  is a base domain. Moreover, binary domains occur naturally in applications such as tournaments where a pairwise comparison of all agents is performed; consider, for example, a round-robin tournament.

In the case of binary domains, the presence of all two-element sets in  $\Sigma$  guarantees that every G-rationalization must be complete and, as a consequence, all rationality requirements involving greatest-element rationalizability and consistency become equivalent. In contrast, maximal-element rationalizability by a consistent and complete rationalization remains a stronger requirement than maximal-element rationalizability by a consistent and reflexive rationalization. These observations are summarized in the following theorem.

**Theorem 4** *Suppose  $\Sigma$  is a binary domain. Then*

$$\boxed{\text{RCG, CG, RCM, CM, RG, G}}$$

$$\downarrow$$

$$\boxed{\text{RM, M}}$$

**Proof.** We divide the proof into the same three steps as in Theorem 1.

**Step 1.** We prove the equivalence of the axioms for each of the two boxes.

**1.a.** Using Theorem 1, the equivalence of the axioms in the top box follows from the observation that any consistent G-rationalization of  $C$  must be complete, given that  $\Sigma$  is binary.

**1.b.** This part is already proven in Theorem 1.

**Step 2.** Again, the implication corresponding to the arrow in the theorem statement is straightforward.

**Step 3.** To prove that the reverse implication is not valid, Example 1 can be employed.

■

As shown in Theorem 4, there are only two different versions of rationalizability for binary domains. Consequently, we can restrict attention to the rationalizability axioms **G** and **M** in this case, keeping in mind that, by Theorem 4, all other rationalizability requirements involving consistent rationalizations are covered as well. Although there are some analogies between the results in this section and some of the theorems established in Bossert, Sprumont and Suzumura (2001), our characterizations are novel because, unlike the earlier paper, they employ consistency and they apply to binary domains rather than base domains.

First, we show that **G** (and all other axioms that are equivalent to it according to Theorem 4) is characterized by the following weak congruence axiom (see Bossert, Sprumont and Suzumura, 2001).

**Weak Congruence:** For all  $x, y, z \in X$ , for all  $S \in \Sigma$ , if  $(x, y) \in R_C$ ,  $(y, z) \in R_C$ ,  $x \in S$  and  $z \in C(S)$ , then  $x \in C(S)$ .

In contrast to congruence, weak congruence does not apply to chains of direct revealed preference of an arbitrary length but merely to chains involving three elements. For binary domains, weak congruence is necessary and sufficient for all forms of greatest-element rationalizability involving a consistent **G**-rationalization.

**Theorem 5** *Suppose  $\Sigma$  is a binary domain.  $C$  satisfies **G** if and only if  $C$  satisfies weak congruence.*

**Proof.** By Theorem 4, **G** is equivalent to **RCG** given that  $\Sigma$  is a binary domain. Moreover, as mentioned earlier, consistency is equivalent to transitivity in the presence of

reflexivity and completeness. Theorem 3 in Bossert, Sprumont and Suzumura (2001) states that greatest-element rationalizability by a reflexive, complete and transitive relation is equivalent to weak congruence, provided that  $\Sigma$  is a binary domain. The result follows immediately as a consequence of this observation. ■

Finally, we establish that direct-revelation coherence and P-acyclicity of  $R_C$  together are necessary and sufficient for **M** (and **RM**) on a binary domain. This result is analogous to the characterization of greatest-element rationalizability by a P-acyclical, reflexive and complete rationalization on base domains (domains that contain all singletons in addition to all two-element sets) in Bossert, Sprumont and Suzumura (2001, Theorem 5).

**Theorem 6** *Suppose  $\Sigma$  is a binary domain.  $C$  satisfies **M** if and only if  $C$  satisfies direct-revelation coherence and  $R_C$  is P-acyclical.*

**Proof.**

**Step 1.** We first show that **M** implies that  $R_C$  is P-acyclical (that direct-revelation coherence is implied follows from Lemma 3). Suppose  $R$  is a consistent M-rationalization of  $C$ . By way of contradiction, suppose  $R_C$  is not P-acyclical. Then there exist  $K \in \mathbb{N} \setminus \{1\}$  and  $x^0, \dots, x^K \in X$  such that  $(x^{k-1}, x^k) \in P(R_C)$  for all  $k \in \{1, \dots, K\}$  and  $(x^K, x^0) \in P(R_C)$ . Because  $\Sigma$  is a binary domain,  $\{x^{k-1}, x^k\} \in \Sigma$  for all  $k \in \{1, \dots, K\}$  and  $\{x^0, x^K\} \in \Sigma$ . By definition of  $R_C$ , it follows that  $x^k \notin C(\{x^{k-1}, x^k\})$  for all  $k \in \{1, \dots, K\}$  and  $x^0 \notin C(\{x^0, x^K\})$ . Because  $R$  is an M-rationalization of  $C$ , it follows that  $(x^{k-1}, x^k) \in P(R)$  for all  $k \in \{1, \dots, K\}$  and  $(x^K, x^0) \in P(R)$ , contradicting the consistency of  $R$ .

**Step 2.** We show that direct-revelation coherence and the P-acyclicity of  $R_C$  together imply **M**. Define  $R = P(R_C)$ . Clearly,  $P(R) = R = P(R_C)$  and, consequently,  $R$  is consistent because  $R_C$  is P-acyclical.



It remains to be shown that  $R$  is an M-rationalization of  $C$ . Let  $S \in \Sigma$  and  $x \in S$ . Suppose first that  $x$  is  $R$ -maximal in  $S$ , that is,  $(y, x) \notin P(R)$  for all  $y \in S$ . If  $S = \{x\}$ ,  $x \in C(S)$  follows from the non-emptiness of  $C(S)$ . Now suppose  $S \neq \{x\}$ , and let  $y \in S \setminus \{x\}$ . Because  $\Sigma$  is a binary domain,  $\{x, y\} \in \Sigma$ . If  $x \in C(\{x, y\})$ , we obtain  $(x, y) \in R_C$  by definition. If  $x \notin C(\{x, y\})$ , it follows that  $(y, x) \in R_C$  and, because  $(y, x) \notin P(R) = P(R_C)$  by assumption, we again obtain  $(x, y) \in R_C$ . By direct-revelation coherence, it follows that  $x \in C(S)$ .

Now suppose  $x \in C(S)$ . This implies  $(x, y) \in R_C$  for all  $y \in S$  and, therefore,  $(y, x) \notin P(R_C) = P(R)$  for all  $y \in S$ . Therefore,  $x$  is  $R$ -maximal in  $S$ . ■

## 5 Concluding Remarks

The only notion of consistent rationalizability that is not characterized in this paper is maximal-element rationalizability by means of a consistent (and reflexive) rationalization on a general domain. The reason why it is difficult to obtain necessary and sufficient conditions in that case is the existential nature of the requirements for maximal-element rationalizability. It is immediately apparent that the revealed preference relation must be respected by any greatest-element rationalization, whereas this is not the case for maximal-element rationalizability (see Lemma 3). In order to exclude an element from a set of chosen alternatives according to maximal-element rationalizability, it merely is required that there exists (at least) *one* element in that set which is strictly preferred to the alternative to be excluded. The problem of identifying necessary and sufficient conditions for that kind of rationalizability is closely related to the problem of determining the *dimension* of a quasi-ordering; see, for example, Dushnik and Miller (1941). Because this is an area that is still quite unsettled, it is not too surprising that characterizations of

maximal-element rationalizability on general domains are difficult to obtain. To the best of our knowledge, this is a feature that is shared by *all* notions of maximal-element rationalizability that are not equivalent to one of the notions of greatest-element rationalizability on general domains: we are not aware of any characterization results for maximal-element rationalizability on general domains unless the notion of maximal-element rationalizability employed happens to coincide with one of the notions of greatest-element rationalizability. Thus, there are important open questions to be addressed in future work in this area of research.

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