

# Ordinal Utility Subjective Poverty Line and Equivalence Scales<sup>1</sup>

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## ABSTRACT

Most subjective poverty lines and subjective equivalence scales have been rationalized in the literature by assuming a cardinal utility framework, an approach which greatly restricts their use within the standard microeconomic theory. However, we show that an approach based on Minimum Income Needs Question (MINQ) is consistent with an ordinal utility setting. It requires two basic assumptions: (i) the *minimum income perception* which assumes systematic perception errors that can be isolated by the intersection method, and (ii) *equivalent utility* which assumes that households at the true minimum income have the same utility level across various demographic characteristics. Neither assumption imposes any additional limitations on the underlying utility function. The subjective equivalence scales based on MINQ can aid identification of the demand systems without loss of generality or without putting any additional restrictions on either theoretical model or estimation.

KEY WORDS: Poverty, Equivalence Scales, Subjective Poverty Line, Intersection Method

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