We propose a theory of status quo-dependent choice which we first axiomatically characterize and then

apply to game theoretic settings. Moving away from a status quo leads the agent to incur a switching

cost that can vary depending upon which alternative the agent switches to and from. In a choice problem

with a status quo, the agent chooses the available alternative whose utility net of the switching cost is

the highest. Our theory not only generates the status quo bias phenomenon but also allows for the status

quo to yield a graded reference effect. In our application, we extend the notion of Nash Equilibrium

and among various other results, we find cooperation in the Prisoners’ Dilemma game may be a Nash

Equilibrium.