What Drives Conspicuous Consumption?

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Background

- Conspicuous consumption: a willingness to pay more for a good that is *conspicuously exclusive*
- Mentioned as far back as Veblen's *Theory of the Leisure Class* (1899)
- Modern example: consumption of luxury cars

What Drives Conspicuous Consumption?

- Previous theory focused on *desire to signal status* or other desirable characteristic, eg Ireland (1994), Bagwell and Bernheim (1996)
- However, simpler driver is possible: *preferences for exclusivity*
    1. Agents may want others to know they belong to a particular exclusive group
    2. Or, agents desire to buy goods simply because they are exclusive
- Our design can distinguish between status signaling and exclusivity preferences, though not between possible types of exclusivity preferences

Existing Evidence

- Evidence from observational data is indirect:
  - Bassman, Molina, and Slottje (1988) show that elasticities of more visible consumption categories are larger
  - Charles, Hurst, and Roussav (2009) find that minorities tend to consume larger shares of more visible goods
- Experiment by Amaldoss and Jain (2005) finds conspicuous consumption, but value of consumption good comes from structurally imposed network externalities

Questions

- Can we document that conspicuous consumption arises endogenously in the lab?
  $\rightarrow$ Yes.
- What is driving this conspicuous consumption?
  $\rightarrow$ Both status signaling and preferences for exclusivity play a role.

Overview of Design

Three key components of conspicuous consumption:

1. Observable consumption good (eg, a luxury car)
2. Exclusivity: purchasing consumption good is easier for some people that for others (eg, wealthier people can more easily afford luxury car)
3. Status: Ease of purchase is correlated with a valued attribute (eg, wealth or social status)

Observable Consumption Good: Lottery Game

- Need a consumption good that is highly visible
- Participants will play a dice-rolling game with prize of an Amazon gift card
- Pay to enter high-stakes version ($50 prize), or play low-stakes version ($10 prize) for free
- Price to enter high-stakes varies: $2, $4, $8, $12, not available
- Participation in the game is *conspicuous*:
    - Game will be played one or two people at a time, in front of room
    - High-stakes and low-stakes players will be separately identified
    - First names and scores displayed on screen
    - Do "dry run" so subjects understand visibility of game

Exclusivity

- Subjects are *privately* assigned to large (70%) or small (30%) group
- Price to enter high-stakes game will *differ for large and small group*:
    - Decision to enter game will be elicited via strategy method for 24 different scenarios
    - Scenarios cover all possible combinations of prices for large and small groups
- Difference in price is analogous to variation in marginal utility of money between wealthy and non-wealthy in luxury car example

Status

- Assignment to groups is based on unobserved but desirable personal characteristic: generosity
    - *Before consumption decisions*, subjects given chance to make donation to American Red Cross, out of additional $10
    - Participants *privately* classified as "givers" or "non-givers" on basis of donation decision
    - Givers are the large group and non-givers are the small group
- Remember, price of consumption good depends on group assignment

Overview

- Common knowledge:
    - Price regime
    - How groups are assigned
    - Purchase decisions
- Your group assignment (and hence price paid) is private

Smoking Gun: Other-Price Effects

- Status signaling will cause givers to have *positive* demand response to non-giver price
- Status signaling has opposite effect on non-givers
- Exclusivity preferences will cause both groups to have positive other-price response

Table: Sign of other-price effect on demand

	Status Signaling	Exclusivity Preferences	Total
Givers	+	+	+
Non-givers	-	+	?

Control: Exclusivity Only

- Within our design, can't get status effect without allowing exclusivity as well

	Status Signaling	Exclusivity Preferences	Total
Givers	+	+	+
Non-givers	-	+	?

Treatment

Control: Exclusivity Only

- Within our design, can't get status effect without allowing exclusivity as well
- However, can run control where status signaling should play no role:
    - Subjects are assigned *randomly* to small or large group, called "circles" and "triangles" for neutrality
    - No longer any status associated with groups, so only exclusivity should matter

|	Status Signaling	Exclusivity Preferences	Total
Givers	+	+	+
Non-givers	-	+	?

Control

Subject Population

- Data collected at UCSD in August and October of 2012
- Sample well-balanced across treatments on age, gender, and GPA

	Treatment: Exclusivity + Status	Control: Exclusivity Only	Total
Large	Givers = 89	Circles = 76	165
Small	Non-givers = 26	Triangles = 33	59
Total	115	109	224

Demand vs Own Price
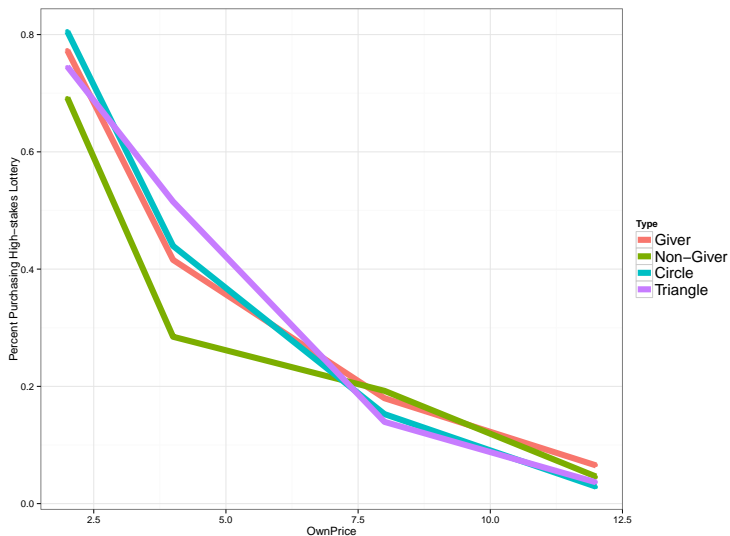
Demand vs Other Price
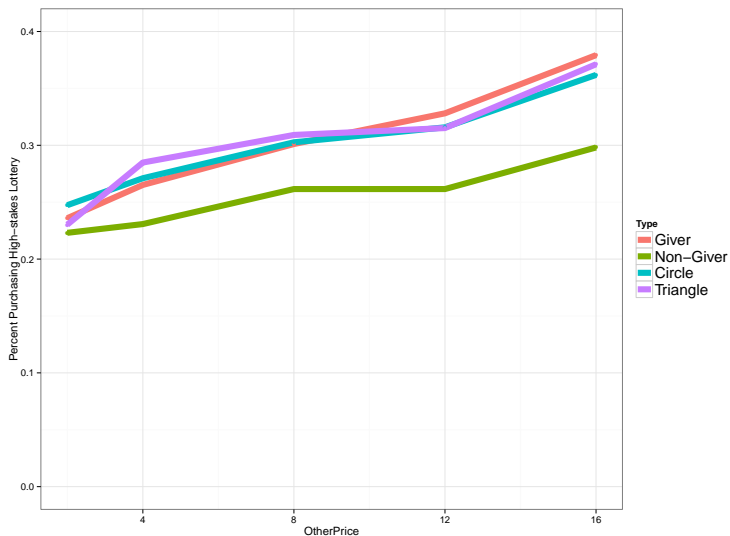
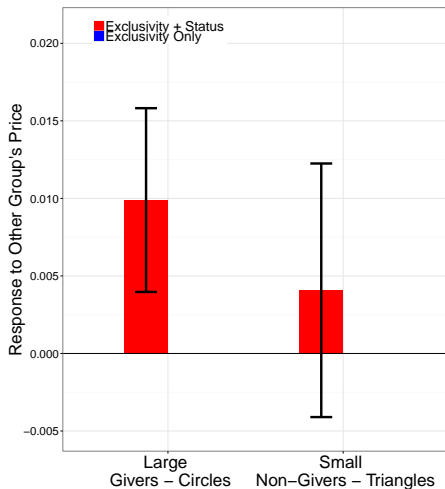# Main Metric: Other-Price Effect

- Our primary specification of interest:

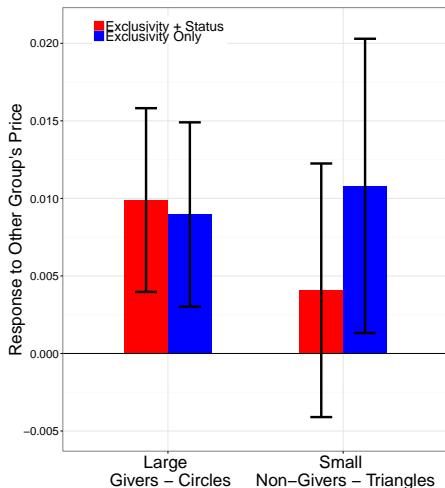$$Demand_{it} = \alpha_i + \beta_1 OwnPrice_{it} + \beta_2 OtherPrice_{it} + \epsilon_{it}$$

  where i indexes subjects and t indexes price scenarios

- All of our hypotheses center around sign of β_2:
  - For givers, expect $\beta_2 > 0$
  - For non-givers, net effect on β_2 is unclear
  - For both groups in control, expect $\beta_2 > 0$

Main Result: Response to Other Group's Price

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- Subjects have exclusivity preferences
- Subjects desire to signal status
- Note that exclusivity effect is slightly stronger than status effect

Regression Analysis

	Demand	
_cons	-5.822***	(1.519)
OwnPrice	-0.124***	(0.027)
OwnPriceXLarge	-0.010	(0.027)
OwnPriceXTreat	0.039	(0.033)
OwnPriceXLargeXTreat	-0.006	(0.045)
OtherPrice	0.011***	(0.004)
OtherPriceXLarge	-0.002	(0.004)
OtherPriceXTreat	-0.008*	(0.005)
OtherPriceXLargeXTreat	0.010^{+}	(0.006)
N	3800	

$^{+}$ $p < 0.15$, * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Fixed effects probit regression with clustered standard errors at individual level. Dependent variable $= 1$ if subject buys high-stakes lottery, 0 otherwise. Coefficients reported as marginal effects. Standard errors in parentheses. Observations excluded if high-stakes lottery not available to subject in that price scenario.

Conclusion

- Designed experimental setting that allows for conspicuous consumption
- Subjects do in fact conspicuously consume: demand depends how attainable good is for other type
- Exclusivity and status signaling both play a role, but exclusivity effect seems to be stronger

Thank you!