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Conspicuous Consumption

- A study of prestige-related consumer behavior

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To what purpose is all the toil and bustle of the world? . . . It is our vanity which urges us on. . . . It is not wealth that men desire, but the consideration and good opinion that wait upon riches.

[ADAM SMITH, The Theory of Moral Sentiments]¹

¹ Cole et al, 1992: 1092

Abstract

Title: Conspicuous Consumption- A study of prestige-related consumer behavior

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Abstract: The tendency to buy expensive and unnecessary goods is a pattern of consumer behavior that is becoming all too common in our society. We consume luxury items to satisfy practical needs that are already satisfied in the quest toward self-fulfillment, or simply to impress those around us. The phenomenon of “status consumption” has become increasingly evident in modern society. Although conspicuous consumption is more or less limited to developed countries it makes up an overwhelming part of the consumption where it does exist. The term conspicuous consumption was coined by the economist Thorstein Veblen in his book “the theory of the leisure class” where he defines it as the buying of unnecessary and expensive products and services as a way to show off wealth.² This paper will explore which factors motivate this form of consumption and in turn how this behavior affects the consumer as well as the economy.

Keywords: Conspicuous consumption, status consumption, Veblen, consumer behavior, economic growth, welfare

² Veblen, 1899: passim

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1 Introduction

A good is considered conspicuous when its characteristics and the amount an individual consumes of the good can be publicly observed.³ Conspicuous consumption is a term coined by Thorstein Veblen in his most famous work *The Theory of the Leisure Class* in 1899 and refers to the unnecessary consumption of expensive products or services to signal wealth.⁴ This phenomenon has become increasingly abundant in western society. Of course, which goods are considered necessities versus which goods are used primarily to signal wealth is individual depending on the consumer, and it is virtually impossible to categorize all goods for all consumers. Although there is no empirically derived definition of a status good, no economist or scientist – social or behavioral – denies its existence. However, because of the obscurity of the concept, studies on the subject are limited and attempts to measure the extent of status consumption⁵ have to date been made mainly by private marketing research companies. To fully understand why this type of consumer behavior has become so common, the possible causes for it must be analyzed. This paper aims to discuss the reasons behind conspicuous consumption and in turn, if and how this affects the consumer, as well as the economy.

In light of the recent economic crash it is crucial that every possible cause for the regression is examined, so as to avoid repeating the same mistakes again. It is entirely possible that one of the reasons behind the current financial disaster is overconsumption. Of course, many people need to take loans to sustain their overconsumption, and to continuously keep up with ‘the Jones’ they must continuously take loans. It is possible that the pursuit of status consumption is

³ Bagwell & Bernheim, 1992: 6

⁴ Veblen, 1899: *passim*

⁵ The terms ‘status consumption’ and ‘status good’ are used interchangeably with ‘conspicuous consumption’ and ‘conspicuous good’ respectively in this paper.

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a leading cause of financial management problems and often times the reason why individuals chose to live far above their means. If a consumer adopts a reference group with more financial resources than themselves, this will automatically create a debt-inducing norm for this individual, which can eventually lead to their own economic demise. Presumably, if the majority of consumers behave in this way, their collective debt and financial ruin will be severe enough to affect the economy at large, which we have seen proof of.

According to economic theory a consumer will buy a product when the intrinsic utility of the actual product exceeds the price of the product,⁶ however, this does not take into account the value the consumer puts on mere ownership, or the status a certain product will give them. Basically, the behavior of the individual consumer is influenced by much more than utility maximization. To evaluate a product and its utility consumers will consider the price of the product, the quality of the product, how the product works, what the product represents, and many other factors that are almost impossible to measure and individual to each person. The consumer will also observe the consumption of his peers before making a purchasing decision. Additionally, he will need an alibi, or a reason, that validates his purchase to the public, as well as to himself. Of course, all of these steps only come in to play after the consumer has been made aware of the product, usually through some form of advertisement, which has the initial affect on the consumer's opinion of the product in question. A possible misconception when predicting consumer behavior is that the buyer makes his choice entirely based on his own needs. Realistically, out of the things we consume, there are very few that can actually be considered needs in terms of survival. The buyer is far more affected by the consumption of others than one might think. After all, as the social anthropologist Edmund Leach noted, "we act as we do because, one

⁶ Pepall, Richards & Norman, 2002: 551

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way or another, we have learned from others that that is the way we ought to behave.”⁷ For example, if a consumer was not aware of, or simply did not value what owning a BMW signals to the public, the individual would presumably be less inclined to buy a BMW, since a Volvo is a cheaper option, and often of equal quality- thus is more rewarding from a utility standpoint. However, it is the image of the brand and what it signals to the public that is the final detail to influence the consumers individual purchasing decision. To many, it seems that success is only valuable if it can be proven to others, and this is done through purchasing expensive and often unnecessary things. With the development of the present day economic meritocracy those with less money who were previously described as “unfortunate” have become “failures”, and it is the fear of this label that drives people to constantly work towards a higher salary so as to enable themselves to prove their success to the public.⁸

In the words of La Rochefoucauld: “The world more often rewards visible signs of accomplishments than the accomplishments themselves.”⁹ The need for people to prove their success to the public through status-consumption has resulted in a severe over-consumption. Over-consumption has become increasingly common, specifically in the U.S.A., and this is because people have stopped saving money. Saving has become somewhat unfashionable in the U.S., and when income increases people chose to buy more instead of putting money away for security.¹⁰ This could explain the distinct difference between consumption in the United States compared to Asia, where over-consumption is not as widespread, and people have a tendency to save their fortunes rather than spend them. Of course, large fortunes are not as common

⁷ Jones, 1984: 16

⁸ De Botton, 2004: 87

⁹ De Botton, 2004: 100

¹⁰ Gittins, 2008

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in Asia as they are in the U.S., and large amounts of money are not taken for granted in Asian countries in the same way that they are in the U.S., spurring wealthy Asians to save their money for future security while wealthy Americans are often convinced that they will acquire money in the future, and therefore can afford to spend now. It should be stated that this essay diverts its focus toward the American form of consumption and standards, which in many cases apply to European standards as well. Therefore, statements in this essay cannot always be considered relevant for developing, or recently developed economies, and the generalizations made apply to already wealthy countries and established economies.

2 Methodology

To understand what mechanisms lie beneath the concept of conspicuous consumption and what effect this phenomenon has on society and the economy several different components were examined. Since there is technically no limit as to how many aspects of the economy one could explore to fully capture the essence of status consumption, this essay touches upon some of the most influential factors of economics in general and discusses how these in turn influence, or are influenced by, conspicuous consumption. There is a significant lack of research on this particular topic, which has limited the study considerably. In addition, the research that exists is almost strictly theoretical and seldom reaches any form of conclusion without the assistance of behavioral psychology theory. Naturally, this subject requires a significant amount of psychology in combination with economic ideas to draw reasonable conclusions.

2.1 Scientific approach

There are two ways to approach a question or problem, the deductive and inductive method. The deductive method refers to a situation where one has a formulated hypothesis from the get-go and will proceed to investigate its accuracy through research, study and analysis.¹¹ If the data is significant and supports the hypothesis it is not concluded that the hypothesis is true, since the outcome could depend on other factors as well, but there is evidence to show that the hypothesis could be true.¹² In the case of the inductive method, there is no previously formulated hypothesis. Instead, there is a question, or idea, that the researcher will use as a guideline during research. Upon the completion of research, the information is analyzed and the researcher will attempt to link it

¹¹ Hartman, 2001: 23

¹² Hartman, 2001: 23

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together in a way that can offer answers to the initial questions posed. If a significant connection or trend within the data is discovered, a general hypothesis can be formed simultaneously as it is supported by the findings.¹³ The inductive method was the natural approach in this study. There existed no distinct hypothesis before beginning the research process, instead the research was guided by the idea that conspicuous consumption is affected by status and that conspicuous consumption in turn has an effect on the economy. Additionally questions like what causes conspicuous consumption gave the research direction. After information was gathered on the subject it was analyzed and certain trends led to conclusions about the relationship between conspicuous consumption and the economy as well as conspicuous consumption and the consumer. Additionally, ideas about how conspicuous consumption will affect society and the economy in the future, as well as what measures can be taken to improve the role of conspicuous consumption within the economy, were explored.

2.2 Research method

There is a distinct lack of empirical evidence to prove that conspicuous consumption has significant effect on the economy, and most ideas concerning conspicuous consumption as a whole are derived through behavioral psychology. The reason empirical studies are absent in this subject area is because conspicuous consumption is an ill-defined concept, and virtually impossible to measure. A questionnaire, for example, would not be very useful since according to behavioral scientists ones own conspicuous consumption is rarely recognized. Also, since the definition of conspicuous consumption is, in fact, conspicuous, and can be interpreted differently by every individual, a questionnaire may lead the respondents to answer in accordance with the experimenter, and the information derived would not be entirely honest or

¹³ Hartman, 2001: 25

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precise. For example, a recent study on status preference, conducted in Sweden by economists Johansson-Stenman and Martinsson at the university of Gothenburg, asked subjects to estimate their own preferences when buying a car, as well as the preferences they believed others to have. This study was completed by distributing a survey to the respondents where they revealed the value they placed on various attributes concerning an automobile purchase. Additionally, researchers asked car-dealers to fill out the same survey concerning the preferences of their clients. The results of the three sets of surveys showed different levels of status concern. Status concern was the lowest when people were asked about their own preferences, and the highest when people were asked about the preferences of other people. The estimates provided by car-dealers showed a status preference between the other two, and the researchers believed this to be the most accurate of the three. This further supports the idea that people are less inclined to reveal their own actual status preference, since it is a characteristic often considered negative. In a similar way, people are likely to overestimate the status concern of their peers, since this results in their own relative lack thereof. Conclusively, asking people about their own level of status concern often produces biased answers. It is presumed that peoples dishonesty is not deliberate, and the results may be cause to interesting discussion, however, they provide fairly unreliable empirical results.¹⁴

Most importantly, conspicuous consumption is too obscure and unexplored for conclusions to be drawn empirically, therefore, this study relies mostly on words, or theories, instead of numbers. There are two main types of analysis, quantitative and qualitative. Quantitative analysis is often based on numbers, statistics, and generalized empirical evidence.¹⁵ This method is commonly

¹⁴ Johansson-Stenman & Martinsson, 2005: *passim*

¹⁵ Svenning, 1999: *passim*

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used when certain parameters are measured and compared, often resulting in a generalization of the final conclusions.¹⁶ Qualitative data on the other hand is more easily applied when information on the subject is scarce, which was the case in this study.¹⁷ Also, since a qualitative method will not attempt to measure effects and label relationships with numbers, it is an ideal form of analysis when studying an obscure concept, such as conspicuous consumption. This essay uses a qualitative approach to explore not just one but several elements surrounding conspicuous consumption, such as the effect of advertising and demographics, as well as the effect of conspicuous consumption, derived through income, on happiness and overall welfare. I will assume to do so through thorough literary research concerning consumption psychology and the development of the economy. This information will be used to draw possible conclusions about the relationship between status consumption and the economy, as well as the relationship between the individual consumer and status goods. Thus, the conclusions presented in this paper are largely my own ideas, and although they are not empirically proven, they may well help to understand the largely unexplored phenomenon of conspicuous consumption.

2.3 Information type

This essay makes use of secondary data, that is, information that has been presented in existing studies.¹⁸ After a thorough literary review of ideas and theories about conspicuous consumption by economists and behavioral scientists in the past, found in books, magazines, newspapers, published papers, and online sources alike, this paper attempts to combine already existing ideas and draw new conclusions as to how they may complement each other. Additionally, to control the validity of the secondary data, new

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Hartman, 2001: 64

information is sought out to support previous claims, such as examining recent economic development and determining the presence of a possible relationship between theory and outcome, and at times even presenting ideas concerning causality.

2.4 Source critique

Because of the obscurity of the concept of conspicuous consumption it is difficult to determine the validity of sources on the subject. Although a conspicuous good has a formal definition in theory, it is ill defined in practice. Some good considered a necessity by one consumer may be purchased entirely for status signaling purposes by another. It is important to acknowledge the possibility that the secondary information used in this paper is written through a biased opinion. Often, researchers have a previously formulated opinion about the topic of their studies, and therefore all claims must be viewed critically. Additionally, since recent studies on this topic are typically conducted by private marketing firms it is possible, if not probable, that their claims are made with an ulterior motive in mind, namely to sell more conspicuous goods. Furthermore, since conspicuous consumption is advertised as something superficial and materialistic it is not surprising if people try to avoid this characteristic and therefore are not entirely truthful in their evaluations of their own consumption. Simply put, since this topic is largely unexplored and there is much controversy as to what status consumption is and how it works, the information that does exist must be viewed from a critical standpoint.

However, the literature that does exist on the topic is informative. There are patterns in purchasing behavior that correspond to economic outcomes and that allowed for interesting speculation.

3 Theory

The standard utility model doesn't account for the status seeking motivations of the consumer. According to classic economic theory the utility of goods determines a consumers preferences. Utility is most often denoted by $U(x_1, x_2, x_3, \dots, x_n)$ where X is a bundle of goods that the consumer can choose to receive a maximum utility. The consumer is indifferent as to which bundle he consumes, since they all award equal utility. The only theoretical rules concerning consumer preference are completeness, transitivity, and continuity. However, the possible effect that the status of a certain good has on the utility and in turn the preference of the consumer is not so much as acknowledged in this classic theory of utility. Although the existence of status consumption is agreed upon, no researcher has presented a way in which to estimate the importance of a goods status value to the consumer, or to interpret this into the utility function. There are multiple explanations as to what causes conspicuous consumption, however, there is not one single motivator that is unanimously agreed upon. Most likely, it is a combination of several different variables, and it is also entirely possible that these variables differ in effect depending on the consumer. The major influences on consumer behavior, particularly behavior regarding status consumption, as well as different theories about the result of conspicuous consumption, will be presented in the following chapter. This chapter is divided into three sections; the first considers complete developed theories concerning conspicuous consumption that serve as explanations for the phenomenon, and the second section touches upon a variety of factors that can be used to explain the abundance of status consumption and discusses variable that influence the consumer to apply such a purchasing behavior. The third section discusses possible consequences of underlying status preference.

3.1 Explanatory theories concerning conspicuous consumption

3.1.1 Status goods to demonstrate class

Before Veblen introduced the discussion concerning conspicuous consumption it was a concept virtually unheard of. His theory was breakthrough, and his ideas have played a major role in most studies conducted on the subject to date. Besides his previously mentioned definition of ‘conspicuous consumption’, the term ‘Veblen effect’ has since his period been a standard term and a topic of much discussion. Veblen effects are present when consumers are willing to pay a higher price for a functionally equivalent good.¹⁹ Veblens explanation for such behavior was to gain the esteem of others. He meant that people would consume expensive goods to prove their wealth, which was necessary to gain status in society.²⁰ In later works, this theory has been developed to assume that a high price can have a direct positive effect on utility, however, Veblen did not endorse this perspective. Instead Veblen assumed that the combination of consumption and status has direct effect on utility.²¹ Veblen meant that the relationship between status and utility could be assumed, however, the relationship between price and utility, albeit via status, should be derived.²² Veblen concluded that there were two main motivators behind conspicuous consumption; ‘invidious comparison’ and ‘pecuniary comparison’.²³ Invidious comparison occurs when members of a higher class consume conspicuous goods to distinguish themselves from a lower class, and pecuniary comparison occurs when members of a lower class consume conspicuous goods to give the impression that they are members of a higher class. Bagwell and Bernheims theory, which builds on Veblens findings, offers an explanation as to in which case Veblen effects arise – that is, when consuming a conspicuous good at a higher price is a more effective

¹⁹ Bagwell & Bernheim, 1996: 349

²⁰ Veblen, 1899: *passim*

²¹ Bagwell & Bernheim, 1996: 350

²² Bagwell & Bernheim, 1996: 350

²³ Bagwell & Bernheim, 1996: 350

way of displaying wealth and in essence status, than consuming a larger quantity of conspicuous goods at a lower price. Their primary findings are that the reason consumers are willing to pay a higher price is due to the inhibition of imitation that this behavior provides.²⁴ Consider two households of type H (high income) and L (low income), if the price of a status good is low enough for both households to afford it, type H's demand of this good will decrease. If everyone has equal access to a status good it no longer serves to distinguish a type H consumer from a type L consumer, in essence, eliminating the status derived from the good in the first place. It is therefore in the producer's best interest to price the good high enough that type L households cannot afford it, and type H households will still demand it. Although this will mean that type H households will be paying a much higher price for the good than the marginal cost equilibrium price, no luxury brand can increase profits by decreasing the price of the good.²⁵ A decreased price will simply award them a different customer-base, type L, who is only willing to pay a lower price.

3.1.2 Personality traits determine consumption

Vigneron and Johnson have created a theory to try to explain consumer motivation in luxury consumption by dividing consumers into four different categories. Through the combined ideas of behavioral scientists and economists over the years like Veblen effects, Leibenstein's 'snob effect', and Bearden and Etzels idea of exclusivity, among others, they derived a table that characterizes consumers according to their personal values. They placed emphasis on two dimensions; the importance of the perception of price as an indicator of prestige (high or low), and self-consciousness (private or public). This allows for four different types of consumers defined by the two parameters.²⁶

²⁴ Bagwell & Bernheim, 1996: 350

²⁵ Bagwell & Bernheim, 1996: 362

²⁶ Vigneron & Johnson, 1999:4

	<i>Low</i>	<i>High</i>
Self-consciousness	<i>Private</i>	Hedonist & Perfectionist
	<i>Public</i>	Bandwagon
T	The importance of the perception of price as an indicator of prestige	Veblenian

Table 1: Prestige-seeking consumer behaviors.²⁷

Individuals who are ‘publicly self-conscious’ place high value on the public’s opinion of them and consider their own prestige defined by other peoples thoughts of them, therefore, their primary objective is to appear successful in the eyes of their peers. These people are then divided into two groups regarding the importance of the perception of price as an indicator of prestige. People who consider this of high importance fall in to the ‘Veblenian’ category, whose primary objective is to impress others, and believe that paying a higher price for a good automatically signals status.²⁸ Meanwhile, people who do not consider price of high importance but still primarily value the effect that their own status consumption has on others fall into a category labeled ‘Bandwagon’.²⁹ This is probably the largest category of the four since neither income, interest, nor knowledge is obligatory. The only requirement is to observe ones reference group and imitate their consumption. The remaining two categories are made up of people who are more concerned with their own self-perception than the perception of others – ‘private’ self-consciousness. Also these individuals are divided into two categories depending on the

²⁷ Vigneron & Johnson, 1999: 4

²⁸ Vigneron & Johnson, 1999: 5

²⁹ Vigneron & Johnson, 1999: 7

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importance they place on price as an indicator of status. Private consumers who place high importance on price are considered ‘Snobs’, while private consumers who do not consider price important are ‘Hedonists and Perfectionists’. In congruence with veblenians, snobs use price as a way to demonstrate their own accomplishments, however, unlike veblenians, snobs do not necessarily feel the need to broadcast their wealth by consuming conspicuous goods, but use price as a way to ensure that they consume exclusive goods and avoid mainstream brands.³⁰ Hedonists and perfectionists however, are not concerned with public opinion nor with the price of a good, and their consumption is mainly dependent upon their own personal tastes and preferences, or their perceived quality of the good.³¹ This category of consumer is also known as the neoclassical economic man, which is the type of consumer the standard utility function is based upon. As this theory suggests, this is not the only type of consumer on the market, and therefore the standard utility function is insufficient to explain the general motivations and behaviors of consumers.

Although it is likely that no individual is defined entirely by any one of these categories, but rather that all consumers are a mixture of two or more, it is assumed that everyone has a predominance of one characteristic. It is also assumed that each category is defined by certain demographics. This assumption suggests that further study could potentially help producers understand how to better market their luxury brands and to understand why a demand decrease or increase occurs.

3.1.3 Status consumption to ensure efficient matching

A 2006 paper by Mari Rege at the University of Stavanger in Norway researches the reasons for status consumption with a different approach.

³⁰ Vigneron & Johnson, 1999: 6

³¹ Vigneron & Johnson, 1999: 8

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Instead of assuming that the sole reason for conspicuous consumption is to demonstrate affluence, her theory is that it works to ensure compatible and profitable matches both in business and personal situations. For example, if an educated and intelligent person starts a business they are likely to select a business partner that is at least of equal education and intelligence, rather than someone who will not be as useful to them. In the same way, this theory claims that people choose their life partners with concern to how beneficial the persons contribution will be in a union. Therefore, to ensure the best partner, business or romantic, one must excel to the highest possible level of accomplishment, thus attracting a high level partner. Rege claims that a persons social status signals not only their wealth, but also their abilities, and that therefore there is a unique separating Nash equilibrium in which everyone cares about social status.³² People can better utilize the abilities of someone else, if their own abilities are a compatible match. Assuming then that an individual has abilities denoted by $R_i \in [0, 1]$, and that their payoff from interacting with other people is $M_i = M[R_i, R_j] \geq 0$, then individual i can better utilize the skills of person j if he has high skills himself.³³ Each person is automatically a type 1 or type 0 individual depending on their abilities, and they use status goods to display them. After the signaling is completed, and each player has observed which type (1 or 0) the people around them are, players choose their partner. Since type 1 (high ability) individuals will always choose a type 1 partner, this leaves the type 0 (low ability) individuals to match with one another.

Thus, to derive the highest payoff from interaction with another person, it is imperative that both individuals have the highest possible skill-set, which in turn is advertised through status goods. The amount a person will then invest

³² Rege, 2006: 234

³³ Rege, 2006: 235

Conspicuous Consumption- A study of prestige-related consumer behavior in social status is a function of their abilities, denoted $K(R)$. Additionally, each person will try to maximize his non-status consumption, C_i , so with income I and payoff M_i , individual i 's consumption constraint is:

$$I + M_i = K(R_i) + C_i$$

Furthermore, we assume that the payoff of someone with ability $R = 0$ is always 0 in a complementary interaction. Therefore, this person will always choose not to invest in status, $K(0) = 0$, in a Nash equilibrium.³⁴

Conclusively, it is not simply to signal wealth that people choose to buy status-goods, it is to ensure a match to someone of equal abilities as their own, be it in a business situation or in their personal life. The two different reasons behind status consumption also have different implications on welfare. Where the motivation of signaling wealth has negative implications on overall welfare in the sense that it leads to an efficiency-loss due to over-saving and less money invested in non-status goods, this theory suggests that status consumption leads to more efficient matching and can therefore be welfare enhancing.³⁵

Of course, a possible consequence of this game is that type 0 individuals will consume status goods to signal to the public that they are a type 1 individual, thus achieving a higher match and a higher payoff. This scenario would lead to a higher level of overall status consumption as well as inefficient matching. In any case, this theory presents a reasonable motivation for status consumption and status signaling.

³⁴ Rege, 2006: 235

³⁵ Rege, 2006: 241

3.2 Variables that influence status-consumption

3.2.1 The effects of advertisements and public influence on conspicuous consumption

Perhaps the most obvious factor that has contributed to the increased general consumption during the past century is the invention of television and radio in the early twentieth century. This enabled manufacturers to advertise their products on a whole new level. In 1946 only 0.02 percent of American households had a T.V. and by year 2000 this number had increased to 98 percent.³⁶ The abundance of large-scale advertising has made it easier for consumers to gather information on and compare products and in a sense made it easier to consume. This naturally causes an increase in conspicuous consumption as well as inconspicuous consumption since it is a fact that the profitability of a consumer good industry positively correlates to the industries advertising intensity.³⁷

One of the most important steps in a buyer's decision-making process is the creation of an alibi, or self-conviction of necessity. Most individuals would not allow themselves to buy something simply because they want it. The consumer unconsciously creates a reason as to why the product is a necessity, an alibi, so as to make the purchasing choice culturally acceptable.³⁸ This alibi is crucial for our purchase and therefore the cleverest way for a company to sell a luxury item is to offer the consumer an alibi. Most suppliers of luxury items do this through advertising, albeit some are more obvious than others, and the most effective way is to simply steer the consumer in the right direction. If a consumer is convinced that a fine piece of jewelry is not merely a fashionable and status signaling item but also an investment, they are much more likely to allow themselves the purchase. Often these alibis are so

³⁶ De Botton, 2004: 61

³⁷ Pepall, Richards & Norman, 2002: 531

³⁸ Rapaille, 2006: 168

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powerful that the consumer himself does not realize the actual reason for his purchase, that it is more of a ‘want’ than a ‘need’, however, they give the consumer the reasons he needs to do the things he wants to do anyway, without feeling guilty.³⁹ People buy things they do not need because of their emotions – reason is always secondary in the purchase decision.⁴⁰ Because of this, consumers are highly responsive to cues that communicate to them on an emotional level. Companies who know their consumers make sure to design products, packaging, advertising, and logos that appeal to the consumer emotionally.⁴¹

The problem of consumers purchasing decisions being influenced by the opinions of advertisers or of other people is only made worse by magazines. As the 19th century English novelist Thackeray noted, people’s obsession with high status stems in the vast amount of newspapers and magazines that on a daily basis impose ideas on the public about the importance of the noble class and thus implying the unimportance of everyone else.⁴²

According to Clotaire Rapaille, the “culture code” for money is “Proof”.⁴³ The earning of money is a way to prove that you are good and accomplished. Money as a measurement of success, however, has one main disadvantage; namely that the public domain seldom has knowledge of it, and therefore it is important to inform the public through appropriate spending.⁴⁴ Money works as a measurement for success only when we consume accordingly, since the things one possesses function as tokens or representations of the money one

³⁹ Rapaille, 2006:169

⁴⁰ Danziger, 2004: 267

⁴¹ Danziger, 2004: 268

⁴² De Botton, 2004: 25

⁴³ Rapaille, 2006: 124

⁴⁴ Scitovsky, 1976: 119

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has earned. According to the vice-president of LVMH⁴⁵, Daniel Piette, for many people the consumption of luxury goods “is all about demonstration”.⁴⁶ The most effective way to advertise a high income is to buy conspicuous goods, not in spite of their expense, but because of it.⁴⁷

Additionally, it is a common understanding that there are different levels of success, and that it is only appropriate that there are various indicators for each level.⁴⁸ This could explain why an abundance of luxury brands in a single industry still results in profit- although all of them signal accomplishment they also indicate specifically which level of accomplishment an individual has reached, and provide incentive for consumers to earn more money and reach the next level. However, an extremely important factor that determines if these ‘levels’ of accomplishment have the intended effect is the branding of the products. “A luxury item has value only if others know how luxurious it is.”⁴⁹ The basic motivation for purchasing a car is considered a valid one, however, what brand or type of car a consumer purchases is governed by secondary motivations, specifically the status the car conveys: “The heavier, the more expensive, the more covered in jewels, the more eloquently it expresses the hidden power” of the owner, the more attractive it is.⁵⁰ In fact, in 1993, *The Economist* wrote; “retailers can damage a glamorous good’s image by selling it too cheaply”.⁵¹ Similarly, the *Wall Street Journal* stated; “a BMW in every driveway might thrill investors in the short run but ultimately could dissipate the prestige that lures buyers to these luxury cars.”⁵²

⁴⁵ LVMH is a French conglomerate that owns Louis Vuitton, Moët et Chandon, and Christian Dior perfumes.

⁴⁶ Bagwell & Bernheim, 1996: 351

⁴⁷ Scitovsky, 1976: 120

⁴⁸ Rapaille, 2006: 165

⁴⁹ Rapaille, 2006: 167

⁵⁰ Dichter, 1964: 263

⁵¹ Bagwell & Bernheim: 1996: 349

⁵² Bagwell & Bernheim: 1996: 349

3.2.2 Status as a biological need

Austrian psychologist Alfred Adler originally coined the term “inferiority feeling” and this is one of the key motivators in status consumption.⁵³ People generally attempt to compensate for their feelings of insufficiency through acquiring products that enhance their social and individual standing.⁵⁴ Around so called snobs most people feel nervous and feel that none of the inner qualities they possess can possibly influence the way they are treated and as long as one cannot project good qualities in a socially legitimate way, through our status, the upper class will be indifferent to our existence.⁵⁵ The problem with this type of status consumption however, which coincidentally may well be the reason it works so well from a suppliers perspective, is that it becomes an arms race - ones spending is so quickly matched by others that in the end effect it has achieved nothing.⁵⁶ The limit for what amount of riches or status objects is appropriate is only determined through a comparison with those people around us that we consider our equals – we consider ourselves lucky only once we possess as much as, or more than, the people we grow up with, work with, are friends with, and identify ourselves with officially.⁵⁷ It all comes down to the need of acceptance and belonging. To a certain point this is a biological necessity, since no man can survive in complete isolation, and a persons survival thus depends on being accepted into a group.⁵⁸ It is therefore imperative that one behaves in a way that will grant membership. Although this to a certain extent justifies the value we place on other people’s opinions, this also makes status-stress virtually impossible to escape. Since people are concerned with measuring up to their peers, or reference group, and seldom compare themselves to people they do not consider their equals or that are too

⁵³ Dichter, 1964: 432

⁵⁴ Dichter, 1964: 433

⁵⁵ De Botton, 2004: 23

⁵⁶ Gittins, 2008

⁵⁷ De Botton, 2004: 45

⁵⁸ Scitovsky, 1976: 114

distant, they will constantly be comparing themselves to their immediate surroundings - often making the success of a friend a negative experience rather than a positive one.⁵⁹

There is, however, a distinct difference between how a consumer is influenced by the need to belong and be equal to a reference group and by the need to impress others by being “better” than the reference group. For example, an award that is meant to give satisfaction to the recipient may give equal misery to a non-recipient who felt deserving of the award. If the non-recipient receives the same recognition a year later, this will in essence work more as a relief of the misery he was in as opposed to feelings of fulfillment.⁶⁰ Buying luxury products works much in the same way. If you are the last person in your group of friends to own a certain luxury or status item, your purchase will work as a way for you to belong, while the first person in your reference group to have purchased the item will have been fortunate enough to experience the thrill and feeling of superiority that came with being the first person to own the good. Ironically, for the trendsetter to fully experience these feelings of pleasure, it is imperative that her reference group views the good as an object of their own individual desires – much in the same way that an award would never be satisfying if it wasn’t something people aspired to.

An important detail to emphasize in the struggle to impress those around us is the viewpoint of American psychologist William James who noted that feelings of jealousy or personal failure only arise concerning other peoples accomplishments that we ourselves consider goals.⁶¹ “Without an attempt there is no failure or embarrassment. Our self-perception in the world depends entirely on who we believe ourselves to be and what we consider ourselves

⁵⁹ De Botton, 2004: 47

⁶⁰ Scitovsky, 1976: 132

⁶¹ De Botton, 2004: 55

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capable of. It is decided entirely upon the relationship between our actual circumstances and our perceived potential. Thus: Self-perception = Success/Expectation.”⁶² Following James’ theory it is quite simple to acquire a good self-perception; either increase the level of success or lower expectations. The problem with this theory however is that our own expectations are dependent upon other peoples expectations of us, as well as the success of others.

3.3 Status-consumption as a means to economic growth

Corneo & Jeanne have a slightly different approach to status consumption than most other researchers on the subject. Their conclusion is that status consumption is in fact beneficial to the economy, and that it exists thanks to a relatively equal distribution of wealth.⁶³ This allows for people to compete with each other. If the difference in wealth among people of a certain group was too large there would be no incentive to consume status goods; the low income consumers could never afford to consume enough to portray themselves as high income consumers – the improvement in rank that could be achieved by adding a unit of wealth would be small, resulting in a low marginal status utility provided by wealth for low income consumers – and high income consumers would be so wealthy in relation to the low income consumers that they would feel no need to defend their social status and so they too would cease to consume status goods.⁶⁴ Consequently, a weak desire for status will reduce people’s motivation to accumulate wealth, which will lead to a reduced rate of aggregate wealth accumulation.⁶⁵ “If an individual’s status increases with his relative wealth, then wealth inequality – as measured

⁶² De Botton, 2004: 56

⁶³ Corneo & Jeanne, 2001: *passim*

⁶⁴ Corneo & Jeanne, 2001: *passim*

⁶⁵ Corneo & Jeanne, 2001: 284

Conspicuous Consumption- A study of prestige-related consumer behavior by the Gini coefficient⁶⁶ – generates a negative impact on the growth performance of the economy.⁶⁷

Nevertheless, perfect social equality would also stunt the consumption of status goods since it implies that the signal that a status item sends the public is relatively uninformative of the persons rank in the wealth distribution. This too would reduce consumers incentive to accumulate status, and in turn wealth, and thereby have negative consequences for economic growth.

Corneo & Jeanne therefore conclude that the relationship between economic growth and inequality is concave rather than monotonic.⁶⁸ What is important to point out, though, is that this theory agrees with most other theories on the subject in that the absolute level of wealth is irrelevant, it is the initial distribution of wealth that matters.⁶⁹ In other words, if everyone received a one dollar rise in their income, this would have no effect on the individuals, since it is ones income relative to others that is of importance. According to this theory, economies with more egalitarian wealth distribution tend to grow faster since it offers everyone the opportunity to rise in rank according to wealth, and induces incentive to do so through status and wealth accumulation even though it is impossible for everyone to ascend the hierarchy in equilibrium.⁷⁰

⁶⁶ A standard economic measure of income equality. 0.0 represents perfect equality in income distribution and 1.0 indicates absolute inequality where one person possesses all income.

⁶⁷ Corneo & Jeanne, 2001: 284

⁶⁸ Corneo & Jeanne, 2001: 285

⁶⁹ Corneo & Jeanne, 2001: 290

⁷⁰ Corneo & Jeanne, 2001: 292

4 Empirical Evidence

As previously mentioned, direct empirical studies that measure the extent of conspicuous consumption are virtually non-existent. However, by studying surrounding information regarding the luxury market, financial debt, and the overall economic situation today, one can find evidence to support the existence of conspicuous consumption, and in certain cases draw conclusions about the relationship between status-seeking behavior and economic outcome. This chapter is divided into two sections. The first section will present evidence and consequences of underlying status preference, with focus on demographic factors as well as reliable studies on the effects that consumption and income have on a persons well being. The second section will present evidence of status consumption, discussing the recent development of the luxury market and advertising, as well as present possible evidence of overconsumption as a probable explanation to increased status consumption.

4.1 Evidence and consequences of underlying status-preference

4.1.1 Evidence of demographic influence on status-preference

Naturally, demographics play as large a part in the extent of conspicuous consumption as in overall consumption. Studies have shown that when certain products are concerned, some demographic groups are more susceptible to public influence than others. Generally, for example, students are more easily affected by their peers in their purchasing decisions than housewives are.⁷¹

According to research by Pamela N. Danziger key demographics of for many conspicuous goods are:

⁷¹ Bearden & Etzel, 1982: 184

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- Younger consumers, under age 34, buy more but incidence remains high through age 64.
- Positive income elasticity.
- More educated consumers buy more.

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Hence, young people, educated people, and wealthy people consume the most.

The second point is in accordance with Parkinson's second law: "Expenditure rises to meet income".⁷³ Which in turn is in accordance with the classic budget restriction which states that people will consume in correspondence to the amount they can afford. As is the case with most goods, the people who are consuming the most are those with the most money, and in most cases these people are the ones who have already established their careers. Not surprisingly, these people are generally middle-aged, which is partly supported by the first key demographic. The baby boom generation, born between 1946 and 1964, holds the majority of the world's finances.⁷⁴ People aged 45 to 54 have an average income of 59,822 dollars, which is the highest of any age group.⁷⁵ This provides an incredible customer base for the excess of luxury items on the market. Additionally, the invention of the television coincided with the baby boom simplifying the marketing process for the producers, and making it possible for new brands and products to reach such a vast market.

Since this generation by far exceeds any other in size, all businesses – banks, restaurants and luxury item suppliers alike – must adapt themselves to the baby boomers needs and wants. Not only have they earned the majority of the world's finances in their working years but they also inherited wealth from

⁷² Danziger, 2004: 119

⁷³ Time Magazine Online, 1962, 31 March, 2009

⁷⁴ Danziger, 2004: 244

⁷⁵ Danziger, 2004: 246

their predators whose death marked the beginning of the largest financial transfer between generations to date.⁷⁶ Not surprisingly, the suppliers willingly adapt to these consumers; modern shopping centers have a tendency to be designed, policed, and regulated in a manner that is intended to exclude particular groups, such as unemployed and homeless people".⁷⁷ In turn, these places are often very attractive and convenient for those individuals who are most likely to spend money in them.

However, many of the purchases this demographic makes are influenced by an entirely different age group. According to a study by MTV, a fifth of all purchases made in the household are influenced by a person between the age of 15 and 24.⁷⁸ Although this fact may not be entirely surprising for necessities such as food, it is alarming that one out of every five flat-screen televisions, one out of four mobile phones, and every tenth car is purchased under the influence of the young,⁷⁹ who generally are not the ones paying for the product. This is ideal for the suppliers on the market, since children are significantly easier to influence through advertising. The market needs the younger generation, who in turn are flattered by the attention they receive and are happy to oblige.⁸⁰ Children today learn incredibly quickly the relationship between brand and status,⁸¹ and this will influence the purchases their parents make. Unfortunately, however, it seems that young consumers are not as aware of the value of money as they are of the value of status, therefore, they are even more likely than their parents to endorse a conspicuous purchase.

⁷⁶ Underhill, 2006: 105

⁷⁷ Venkatesh & Kassimir, 2007: 229

⁷⁸ Stenberg, 2009

⁷⁹ Stenberg, 2009

⁸⁰ Underhill, 2006: 115

⁸¹ Underhill, 2006:115

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The third point is perhaps the most interesting one for modern western society. Since education has increased dramatically in recent years, it is no wonder then that luxury consumption has increased as well, and we should expect this trend to continue provided that the financial resources are available. “You can communicate with a more educated consumer on a deeper, conceptual level. More-sophisticated, better-educated consumers are receptive to complex branding messages. They have the intellectual tools to absorb such messages and internalize them. In fact, more educated consumers demand information about their favorite products, companies, and brands.”⁸²

4.1.2 Income as a means to happiness

Of course, the emotions that control our purchases are easily misunderstood, and the quest for status can have unfortunate consequences. The positive feelings that accompany the ability to “purchase” recognition or membership in a group of ones peers often leads to the perception that money itself is the source of happiness. Since misery comes to those who are unable to attain the respect and acknowledgement from their reference group that are necessary to their well being, consumers quickly relate this misery to their own inability to financially afford the items necessary for this award. This presents a relationship between income and happiness that is often blown out of proportion and inaccurate.

Richard Easterlin was the first economist to seriously study the effects of money on happiness and his conclusion was that “money does not buy happiness”.⁸³ However, judging from the importance people place on money, and the lack of a limit to how much money is an appropriate amount, one would expect people with higher incomes to be more satisfied, or happy if you

⁸² Danziger, 2004: 249

⁸³ Frey & Stutzer, 2001: 5

will, than people with lower incomes.⁸⁴ In fact, most economists assume that this is also the case – higher income leads to higher happiness.⁸⁵ Since a higher income allows for a higher consumption of goods and services it is a natural conclusion that utility U is raised by income Y, with $U'>0$, and economic textbooks seldom bother to provide a reason for this relationship.⁸⁶ There are of course several economists besides Easterlin who argue against this theory of increased income leading to increased happiness. Scitovsky, for example, even suggests that a higher income would be a negative thing, since the continuous comfort this would bring would inhibit the feelings of pleasure that come from satisfying a desire when not all of ones wishes are fulfilled.⁸⁷

According to several studies comparing countries incomes, measured by using exchange rates as well as purchasing power parities, there is a correlation between happiness and income in the countries on the whole. On average, people living in rich countries are happier than people living in poor countries.⁸⁸ However, the two variables exude a curvilinear relationship that shows us that although increased income provides happiness, the effect of the increased income is smaller once a certain threshold has been passed.⁸⁹ Although it is clear that wealthy countries have a generally happier population than poor countries there is no evidence that income is the direct cause of the peoples subjective well-being. A higher income has direct positive effects on both the quality of food and water and the level of education. It also assures a more equal distribution of income in a country and improves health care contributing to better average health and a longer life expectancy. Also, most wealthy countries have higher equality between the sexes and a greater respect

⁸⁴ Scitovsky, 1976: 137

⁸⁵ Frey & Stutzer, 2001: 4

⁸⁶ Frey & Stutzer, 2001: 5

⁸⁷ Scitovsky, 1976: passim

⁸⁸ Frey & Stutzer, 2001: 5

⁸⁹ Frey & Stutzer, 2001: 5

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for human rights. Conclusively, the higher per capita income a country has, the more stable their democracy.⁹⁰ These are all plausible reasons why a citizen of a wealthy country would feel happier than a citizen of a poor country – in reality, the perceived satisfaction may not be directly related to income, nevertheless there is enough evidence to lead experts to assume a definite relationship between the two.

Taking these findings into account it would be viable to assume that because the average income of Americans has increased dramatically in the past 60 years the level of happiness would have risen as well, yet this does not seem to be the case. When the happiness of individual people within a country is concerned an increase of subjective well-being is largely dependent upon ones income relative to others. Easterlin meant that raising the income of all would not increase the happiness of all, since relative income would not improve for anyone.⁹¹ This corresponds with the previously discussed obsession with comparing oneself to a reference group. If an individuals income has not increased relative to their peers, but instead in congruence with their incomes, it is not perceived as a gain to the individual.

Nevertheless, studies have shown a 0.2 correlation between happiness and income within a country.⁹² Although this confirms the general belief that money will make us happier, it is a surprisingly small correlation. In a survey where people were asked to rate their own happiness 88% of people in the highest quartile of income responded “very” or “fairly” satisfied and a surprising 66% of people in the lowest quartile of income responded in the same way.⁹³ These findings suggest that there are many more variables that

⁹⁰ Frey & Stutzer, 2001: 6

⁹¹ Frey & Stutzer, 2001: 10

⁹² Frey & Stutzer, 2001: 9

⁹³ Frey & Stutzer, 2001: 9

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contribute to happiness, and some have been shown to have a much more significant impact on our well-being than income, such as unemployment and health.⁹⁴

The previously mentioned threshold, beyond which a higher income does not seem to have significant influence on the overall happiness of the population of a country applies to individuals as well. Studies show that an increase in income will induce a major rise in well-being for someone with a low income, but once an annual income of around 15,000 dollars has been reached, the threshold if you will, the same increase in income will have a considerably smaller effect on the individuals happiness.⁹⁵ Although still having a positive effect on the individual's well-being, marginal well-being decreases as income increases, in accordance with the previously mentioned Law of Diminishing Marginal Utility. This begs to question why people continue to strive fervently towards success, and in essence a higher income, long after this threshold has been reached.

One of the central areas of research at the moment is aimed to understand why consumers never reach satisfaction. To explain this, Dutch economists van Praag and Kapteyn constructed an Individual Welfare Function of Income and included what they call a “preference shift”.⁹⁶ They mean that once income increases, a consumers preference shifts accordingly. People always set goals for themselves, and if an income increase enables someone to reach their goal, a new, higher one will be set – their preferences will change. Since the individuals desire is still not met, the welfare effect of the initial income increase is estimated to only 20-30 percent of its actual value – the rest is

⁹⁴ Frey & Stutzer, 2001: 9

⁹⁵ Frey & Stutzer, 2001: 10

⁹⁶ Frey & Stutzer, 2001: 10

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'destroyed' by the preference shift.⁹⁷ Although this is unfortunate from an immediate satisfaction viewpoint, it serves as a motivator in people's daily lives.

4.2 Evidence of conspicuous consumption

4.2.1 Development of the luxury market

Statistics show that the consumption of conspicuous and status goods has increased dramatically since the 90's. For example, the Sunday Telegraph in Australia has reported an increased demand of luxury goods throughout the mid nineties with the demand of diamonds increasing by 27.5% and mink furs by as much as 1130.8% between 1995 and 1996 alone.⁹⁸ The Asian market is also expanding drastically with the Chinese spending over 8 billion U.S. dollars on luxury goods such as jewellery, perfumes, fashion clothing and leather products in 2007 alone, and the Chinese are now estimated to account for 18% of global luxury consumption.⁹⁹ However, the luxury market is predicted to enter a recession in 2009, with Bain & Co expecting a decline in global luxury sales by as much as 7%, which is an austere contradiction to previous years where the market experienced 9% and 6.5% growth in 2006 and 2007 respectively.¹⁰⁰ Although the full effect of this decline is not yet apparent in many areas of the world, Japan is already in a luxury goods recession with luxury sales decreasing through 2007 and 2008 by 2 and 7 percent respectively.¹⁰¹ Since Japan is responsible for 45% of the world's luxury consumption, this decline has a drastic impact on the global luxury market as well.¹⁰² Europe however, representing 38% of the global market, experienced a growth of 10% in the luxury market in 2007, and although 2008 was predicted a mere 5% growth, Eastern European consumers have

⁹⁷ Frey & Stutzer, 2001: 10

⁹⁸ Vigneron & Johnson, 1999: 1

⁹⁹ Hong Kong Trade Development Council, 2008

¹⁰⁰ Bain & Company, 2008

¹⁰¹ Bain & Company, 2008

¹⁰² Smith & Snipes, 2009

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contributed to the avoidance of a full blown regression in this market.¹⁰³ The Americas, where the luxury market has grown correspondingly in recent years, albeit not as drastically as in the European market, were predicted no change in luxury sales in 2008, which is highly unusual for this market.¹⁰⁴

Luckily for suppliers, luxury spending is increasing in emerging markets such as Brazil, India, China, and Russia.¹⁰⁵ Also, the area of the luxury market that is diminishing does not include the absolute luxury brands such as Hermes and Loro Piana, since these brands primarily attract the absolute wealthiest people in the world, whose fortune is relatively intact regardless of the global economic situation.¹⁰⁶ Brands like Louis Vuitton and Gucci represent a type of lifestyle that is predicted to be valuable enough to consumers of these brands for them to continue purchasing these goods as well.¹⁰⁷ The most affected are the accessible luxury brands, such as Ralph Lauren and Coach. These brands, although considered luxurious by many, are affordable to a much larger customer base than the previously mentioned groups of goods. This type of consumer is usually of upper middle class, and in most cases will be conspicuously affected by the economic crisis, resulting in a temporary decrease of luxury indulgence.

Through casual observation one could estimate that luxury items have become increasingly popular. This trend is also supported by the increase in revenue that producers and suppliers of luxury goods are experiencing. The luxury brand Burberry had increased total revenue by 15%, and retail revenue by 24%, in 2005 alone. According to Burberrys chief executive this was achieved through a marketing strategy emphasizing the luxuriousness of the brand, a

¹⁰³ Bain & Company, 2008

¹⁰⁴ Bain & Company, 2008

¹⁰⁵ Bain & Company, 2008

¹⁰⁶ Bain & Company, 2008

¹⁰⁷ Bain & Company, 2008

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statement that further supports consumers susceptibility to manipulation through status.¹⁰⁸

4.2.2 The development of advertising

The impact of advertising on conspicuous consumption could be considered apparent. Since the rise of advertising all consumption, conspicuous as well as inconspicuous, has increased. The advertising industry has also made note of the current status race and often directly target status-seeking individuals in their campaigns. For instance, a recent Jaguar advertisement reads “If you could drive one car to your high school reunion, this would be it. As you swing into your alma mater in a beautiful new Jaguar XJS convertible, you can almost see the heads turn as your classmates ask ‘Isn’t that...?’”¹⁰⁹ Evidently, these types of advertisements have significant effect on consumers, since cheaper cars are often “virtually identical” to more expensive models.¹¹⁰ In fact, while conducting motivational research one automobile company found that a means of transportation fell in third place on the list of reasons why people buy cars.¹¹¹ In other examples of motivational research women were asked why they buy rugs and most replied reasons such as “they add warmth to the house” or “they’re easier to care for than polished floors”, however, when asked why they think other women buy rugs more critical, and as is presumed by the researchers perhaps more accurate, reasons arose such as “she wants people to know that her husband makes 25,000 dollars”.¹¹² A similar question was posed to women regarding fashion and one woman responded that “fashion is a requirement for those who are high up in their

¹⁰⁸ World Luxury Association, 2006

¹⁰⁹ Bagwell & Bernheim, 2006: 352

¹¹⁰ Bagwell & Bernheim, 2006: 352

¹¹¹ Grossack, 1964: 73

¹¹² Grossack, 1964: 71

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success and are upper class”¹¹³ as a way to signal to the world which class one belongs to.

4.2.3 Debt accumulation as a result of status-consumption

The intensity of advertising across industries has remained relatively constant over the years, which begs to question why certain industries are growing faster than others.¹¹⁴ This can be explained by the financing plans offered by suppliers of expensive goods such as cars, jewelry, furniture, and electronic goods. Even medical providers offer an alternative to paying a large amount all at once in the form of a monthly payment plan.¹¹⁵ This eases the financial burden of the consumer and increases willingness to consume these goods. Paying a little at once instead of a large lump sum makes the consumer feel like he is paying a smaller amount for the good in question. For instance, nine out of ten new cars in the U.S. are bought on credit, and the average outstanding credit card balance is above 7000 dollars for the average American household.¹¹⁶ In 1980 the overall household debt in the U.S. amounted to 60% of overall disposable income, by 2003 this number reached 104%.¹¹⁷ As possible evidence of overconsumption, the habit of buying things on credit can also contribute to an explanation to increased conspicuous consumption. Of course, since this type of consumption has yet to be observed in large parts of Asia, and as previously mentioned is a phenomenon largely restricted to western economies, the option to buy luxury on credit is only a possible explanation to overconsumption. The option of purchasing luxury goods on credit exists in economies outside of the western world, however, the extreme indebtedness that has been witnessed in western economies, suggesting overconsumption, has not yet become abundant in for example

¹¹³ Danziger, 2004: 138

¹¹⁴ Pepall, Richards & Norman, 2002: 531

¹¹⁵ Christen & Morgan, 2005: 146

¹¹⁶ Christen & Morgan, 2005: 145

¹¹⁷ Christen & Morgan, 2005: 145

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Asia. Therefore, although these ideas are entirely plausible, it should be noted that they are somewhat speculative as well.

Buying on credit has serious repercussions on the economy. Income equality in the U.S. has risen over past decades and seems to be the outstanding causal factor of increased debt since keeping up with the conspicuous consumption of a high-income reference group is becoming increasingly difficult.¹¹⁸ Evidently, the increase in income inequality was not accompanied by corresponding rise in consumption inequality.¹¹⁹ Low income consumers have a heavier debt burden than high income consumers – not only are they more inclined to take loans to finance their purchases, but they are also more likely to remain indebted since their financial situation makes it difficult to pay off their loans.¹²⁰ Additionally, since the surge of credit suppliers on the market it has become easier for risky borrowers to attain loans, albeit to higher interest rates, further spurring their willingness to borrow and increasing their difficulty to pay back.¹²¹

The common explanation why income inequality leads to increased debt is the permanent-income theory that states that consumers take loans to level out their consumption over temporary income losses.¹²² However, this theory only holds when the increase in income inequality is a result of the poor losing income, which is not the case in the current situation. In fact, people are becoming wealthier overall, and the reason inequality is rising is because the rich are getting richer.¹²³ The fact that consumer debt increased the most quickly when the economy came out of recession goes to show that the

¹¹⁸ Christen & Morgan, 2005: *passim*

¹¹⁹ Christen & Morgan, 2005: 147

¹²⁰ Christen & Morgan, 2005: 147

¹²¹ Christen & Morgan, 2005: 150

¹²² Christer & Morgan, 2005: 148

¹²³ Christer & Morgan, 2005: 150

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primary use of loans is not to help consumers during difficult financial times.¹²⁴

Christen and Morgan applied aggregate data on income inequality and debt between the years of 1980 to 2003 and found a “strong positive effect of income inequality on household debt relative to disposable income as well as on the components of household debt.”¹²⁵ They also discovered that fluctuations in income inequality had a more powerful influence on debt than fluctuations in interest rates, and that the strongest effects were visible in non-revolving debt, a big part of which is car loans; both factors that further support the theory that consumers prioritize their wants as opposed to their needs.¹²⁶ As previously discussed, financial distress does not have to be the result of an actual decline in income; it can also be that a consumers reference group experienced an increase in income, leaving the consumer feeling poorer in relation. Not surprisingly, this creates an inclination to borrow money just as is predicted if the consumer experienced a real income loss.¹²⁷ What is alarming is that how much people buy on credit can no longer be controlled by credit card limits. High prices on real estate give homeowners a larger borrowing capacity on their house. This grants them to take substantial equity loans and it is very common that consumers use these to pay off their consumer credit.¹²⁸ In essence, people are using their mortgage to finance consumption that has nothing to do with real estate. Naturally consumers opt for this alternative not only because it extends their otherwise limited credit but also since the payments often are tax deductible.¹²⁹

¹²⁴ Christer & Morgan, 2005: 148

¹²⁵ Christen & Morgan, 2005: 148

¹²⁶ Christen & Morgan, 2005: 148

¹²⁷ Christen & Morgan, 2005: 150

¹²⁸ Christen & Morgan, 2005: 153

¹²⁹ Bank of America, 2009

5 Analysis

As mentioned in chapter three, the standard utility function does not begin to explain how status may affect the preferences of a consumer. Since the utility function simply considers the material goods and their utility, the immaterial attributes the goods have are unaccounted for. One way in which to avoid this from happening may be to consider the possibility that an X in the utility function $U(x_1, x_2, x_3, \dots, x_n)$ could be an abstract relative position of a good instead of an actual good. This way one could hypothetically empirically derive the highest utility with regards to all aspects of individual preference. Of course, this variable most likely differs between people and between goods, and placing a value on the relative status difference of two goods for a certain individual is virtually impossible. Therefore, one would have to accept this variable as an unknown one, and thus exact utility can never be determined and the choice the consumer makes ultimately depends on the importance of the abstract “status variable” for that particular consumer for the particular goods they are choosing between. For further research this may be of use, since with extensive study of a certain group of goods one could potentially calculate the effect of the “relative status variable” depending on its size, as reported by the individual. Of course, this is simply a speculative idea, and until further research is done in this direction, the best way to analyze conspicuous consumption is to consider the actual evidence that exists thereof.

5.1 Analyzing the evidence

The fact that the level of advertising across industries has remained virtually unchanged over the years doesn't explain why certain industries seem to be growing more rapidly in relation to other, smaller industries, than they have been in the past. Could this be an illusion of increased conspicuous consumption relative to inconspicuous consumption due to the fact that we,

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the public, cannot observe the inconspicuous consumption of those around us, and therefore do not register any changes in this area? It could be that our level of inconspicuous consumption is not as susceptible to advertising in the sense that we will consume a certain amount of milk regardless of advertising, however, we are more likely to buy a luxury car the more aware we are of the product.

Demographics make the absolute effect of advertising on consumption increasingly difficult to determine. Since the emergence of advertising coincided with a drastic growth in population, to establish which variable has influenced consumption in which way is complex. This is a problem that will most likely be reoccurring since the next generation that resembles the size of the baby boom generation is the millennial generation, whose birth coincided with that of the Internet. From 1983 to 1992 alone the number of Internet users rose from 1000 to 25 million.¹³⁰ Of course, the effects of the Internet are already apparent in the sense that one no longer needs to leave the house to purchase things, nevertheless, it is likely that the impact of the internet will amplify with the rising income of the millennial generation. Furthermore, since consumers generally use credit cards when purchasing goods or services online, further development in this market would presumably contribute to increased credit card usage, and in turn increased consumer debt.

In a similar way, we should expect the increased amount of educated people to have a positive effect on conspicuous consumption. How exactly education affects consumption can be interpreted in various ways: Perhaps education is linked to information and with more information about products on the market one is naturally more inclined to buy than one is without product information. After all, it is a general assumption that luxury or status items are infrequently

¹³⁰ Frank & Cook, 1995

purchased and require a high level of interest and knowledge.¹³¹ Another reason may be that most educated individuals either live in a city or on a largely populated campus while completing their education where they encounter a larger influence of other people. However, probably the most obvious reason is that education generally leads to a higher income. Although it is practically impossible to know the exact reasons for the role of education in consumption it is safe to say that it is most likely a combination of effects, and it is also likely that the way in which this variable affects consumers varies from person to person. One thing that is certain is that a highly educated consumer market provides wonderful new opportunities for companies.

Conversely, the hysterical purchasing behavior that is instigated by feelings of inadequacy or of inferiority seems to contradict the Law of Diminishing Marginal Utility, which states that the second time a good is consumed is less enjoyable than the first.¹³² If this were true, it would seem likely that consumers eventually would reach a point where the marginal utility of another luxury item is so small that the effort put into the actual purchase negates the overall utility. There would be no need for consumers to continue purchasing luxury goods once the first purchase is made. However, this is where the theory of non-satiation, which builds on the idea that consumers always benefit from having additional spending power, serves as an explanation for the way in which individuals continue to consume far beyond what they need. An individual's demand for a certain good may have a finite limit as long as their total spending increases, however, there will always be some good that the individual would benefit from having more of. This theory also serves as explanation as to why people have a tendency to attribute happiness to money – they more they earn, the more they can consume, the more they can benefit.

¹³¹ Vigneron & Johnson, 1999: 2

¹³² Scitovsky, 1976: 15

Whether status depends on ones salary directly, or if it is the result of a specific occupation held is debatable. Most likely it is a combination of the two - one aims to display ones occupational status through conspicuous consumption through the excessive spending of a high salary. In any case, the desire to do so has caused an excess labor supply within certain socially high ranking and financially rewarding sectors. Naturally, one can assume that many of these workers would be more beneficial to the economy at large if they distributed themselves into other, less populated, areas of work. The economy would be more efficient if everyone was not competing against each other for the same position, and inevitably end up in the same line of work. The simplest way to suppress this incentive would be to lower the wages of those few high salary positions such as business executive, which is a commonly overpopulated group, so as to induce incentive to choose a profession according to ones interest and talent rather than the money it awards. Not only would this be beneficial for labor distribution purposes, but it would also decrease income inequality, stimulating economic growth.

5.2 Status and accomplishment

Since money is considered proof of accomplishment, it goes without saying that wealth should have an entirely different effect when it is common knowledge that it did not in fact come from any hard work. Although in theory many people claim this to be true, this is rarely the case in practice. For example, people generally have more respect for someone who has earned their riches through hard work, like Bill Gates, than they have for someone who was born into their money, like Paris Hilton.¹³³ Unfortunately however, disliking someone is seldom enough of a reason not to want them to like us and in this way the upper class can guide people to strive for the lifestyle they

¹³³ Rapaille, 2006: 125

themselves have so as to gain the appropriate recognition.¹³⁴ In essence, the esteem granted to wealthy people regardless of where their wealth comes from undermines the efficiency of using conspicuous consumption to signal personal accomplishment, thereby making the entire process obsolete. It is critical to, like Schopenhauer, question whether we can actually take these peoples opinions seriously and if it is wise to let their judgments dictate how we feel about ourselves.¹³⁵ There is something very baffling about the fact that inherited wealth has the ability to command respect as if it were the inherited title of king or queen. As Thomas Paine noted, the uselessness of science or literature would be profound if occupations within this area were inherited. Paine argued that the same policy should apply to political positions, and that of course, inherited money through the accomplishments of a predecessor should not put the heir in an automatically respected position.¹³⁶ The ambition of modern society is to eliminate hereditary privileges and let individual achievements dictate social hierarchy, which naturally, and paradoxically, has become most easily measured in economic accomplishment.¹³⁷ Unfortunately however, most people are unable to distinguish between wealth as a reward for work well done and wealth as a stroke of luck, which in essence is the case with inherited wealth. Also, when peoples status or recognition is measured in a token, like income, representing the value placed by society on a certain accomplishment, achievements that in reality differ completely from one another are ranked on a one-dimensional scale, and the status-struggle becomes a zero-sum game.¹³⁸

The famous philosopher Jean-Jacques Rousseau often argued that mankind would be better off without the constraints or expectations we put on

¹³⁴ De Botton, 2004: 28

¹³⁵ De Botton, 2004: 127

¹³⁶ De Botton, 2004: 80

¹³⁷ De Botton, 2004: 95

¹³⁸ Scitovsky, 1976: 119

ourselves. He meant that welfare was not about owning a lot of things, but owning what we long for. Every time we want something and cannot afford it we become poorer, regardless of our initial resources. Correspondingly, every time we feel satisfied with what we have we can consider ourselves wealthy, regardless of how little we actually possess.¹³⁹ In agreement with the previously discussed theory by William James, Rousseau believed that there were two ways to make people wealthier; either give them more money or limit their demands.¹⁴⁰

5.3 The future of the luxury market

It is difficult to determine if fluctuations in luxury revenue and in essence luxury demand are the result of the status-seeking behavior previously discussed in this essay without conducting some sort of empirical study. However, if this is the case, it remains to be seen how the sudden regression in the luxury market will affect the individual perception of status, and how people will continue to satisfy their need to demonstrate their wealth or accomplishment when conspicuous goods are no longer affordable. Although it may seem hopeful to assume that peoples obsession with status will diminish due to a lack of ways to display social standing, it is not an entirely impossible scenario. Of course, if the economy bounces back as quickly as it regressed, there need not be a visible change in consumer behavior at all. However, if this does not happen, consumers will either have to stop being so concerned with status, or find an alternative way to display it. If the latter occurs there is undoubtedly a possibility that the status-craze will increase, since it will become an even rarer good, and thus, if one is able to display it, the status this would award could potentially be much higher than the status that a luxury item awards today.

¹³⁹ De Botton, 2004: 62

¹⁴⁰ De Botton, 2004: 63

Another outcome is that the prices of luxury goods, or all goods in fact, will fall in accordance with the regression so that the situation at large will remain unchanged. Unfortunately for the economies hit the hardest by the economic deterioration this seems unlikely, however, since luxury spending is increasing in the emerging markets. A more plausible outcome is that the luxury consumers most affected by the economic crisis, that is, the consumers of accessible luxury brands, will cease to spend their disposable income on status goods, and the chasm between the classes will grow as wealth distribution becomes increasingly uneven. Thus, a plausible outcome is that the middle class will diminish, and there will be a larger separation between the two remaining classes. According to Corneo & Jeanne, this situation would be unprofitable and inhibit economic growth.¹⁴¹ Their argument concludes that there is an optimal level of inequality that encourages economic growth, and if the distribution of wealth were to become too widespread, this would eliminate status consumption and hamper economic development.¹⁴² And in the case that status consumption remains and is instead financed with borrowed money which is a scenario that is especially relevant in our current situation, this will still have a negative impact on the economy. In fact, escalating income inequality in combination with soaring indebtedness is often considered evidence of a weak economy.¹⁴³

5.4 Economic repercussions

It seems that status consumption most commonly leads to over-consumption which can have severe consequences for the economy as well as for the finances of the individual consumer. Of course, overconsumption is a problem that can be attributed to various factors. The discount factor may be

¹⁴¹ Corneo & Jeanne, 2001: 284

¹⁴² Corneo & Jeanne, 2001: 284

¹⁴³ Christer & Morgan, 2005: 147

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misleading for many consumers, since a future payment may not have the same effect on the consumer as a direct payment would. The worth placed on a good today may subconsciously be higher when the good is to be paid for in the future as opposed to the present. Also, the overconfidence effect in which people tend to overestimate their actual performance, both in its simplicity and in relation to others, could cause individuals to consume more expensive things than they can actually afford, and can also convince them that they will earn enough in the future to substantiate their current consumption. In any event, although overconsumption is only a speculative outcome of conspicuous consumption, it is a very real problem. In the race of riches it has become more important to own than to save, and to achieve this people will use any means necessary. Unfortunately, a common way to do so is to borrow money. Credit card debt in the summer of 2008, shortly before the economic crisis became fully evident, was at 44 billion dollars, and more than twenty times this was the total household debt at the time.¹⁴⁴ As we would soon realize, the consequences of this borrowing craze would be dire. Every time we borrow money our debt increases, and the longer it takes to pay off the loan, the more expensive it will be in terms of interest. Technically, we are saving money regardless of if we put it in the bank or if we spend it, the critical difference being that saving money before you buy will earn you a slight interest from the bank, while saving money after your purchase will cost you a significant amount of money in interest. “When the average standard of expenditure rises, society gets spoiled, but the individual has to pay for it – in money if he can afford it, in discomfort if he cannot.”¹⁴⁵ Unfortunately, it seems that the fleeting thrill of purchasing an item one cannot actually afford is so valuable to consumers that the net increase cost of the product after the credit card debt is paid off is worth it. Eventually, and evidently, this type of

¹⁴⁴ Gittins, 2008

¹⁴⁵ Scitovsky, 1976: 131

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behavior can lead to mass debt that inevitably results in an economic crash where the overall debt is so vast that there is not enough money to pay it off. When everyone spends more money than they actually have, eventually, there will be “negative” money so to speak, and naturally, this can lead to a regression. The cycles of economics are natural and inevitable, however, if a regression is the result of status consumption and over-spending that could easily have been avoided it begs to question if, this time, a regression was in fact avoidable.

5.5 Benefits of conspicuous consumption

Although it is easy to criticize the concept of status consumption and most people would probably argue that conspicuous consumption is a bad thing, this is not always the case. There are times when an individual’s status-consumption actually has a positive impact on others. Of course, when someone purchases a fancy car or clothing garment this shouldn’t have any effect on the public – besides inducing further status-stress – but when extravagant palaces are built and magnificent works of art are made to emphasize the wealth of the famously rich in history it is safe to say that the individual who made the purchase was not the only one to benefit.¹⁴⁶ Also, status goods such as publicly announced donations to public goods have high user value for many people besides the investor who is rewarded with status or esteem.¹⁴⁷

Also, because of the many levels of success with corresponding status items to demonstrate each level, striving towards these goods serves to motivate people to continue working long after they have earned enough money to live comfortably for the rest of their lives. This undoubtedly has a positive impact

¹⁴⁶ Scitovsky, 1976: 124

¹⁴⁷ Rege, 2006: 237

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on economic growth and overall welfare. If everyone had stopped working
when they reached a certain amount of wealth the economy would most
probably not have developed nearly as well as it has.

6 Conclusion

Psychological evidence supports the idea that conspicuous consumption does in fact exist and that the behavior of seeking status through the display of material luxuries is the primary cause of the phenomenon. Behavioral scientists agree that it is human nature to desire appraisal and acknowledgement. Since accomplishment is most easily displayed in possessions, excess luxury consumption is only natural. Also, since conspicuous goods do not entail anything that is necessary for survival, there must be some other underlying factor that motivates the purchases of such goods, and all signs point to the will to signal status. The fact that consumers make purchasing decisions based on their emotions is something that advertisers have used to their advantage for some time, and since it is a natural emotion to desire the esteem of ones peers, it is no wonder that consumers will purchase conspicuous goods. Simultaneously however, one shall not disregard the traditional theory that one individuals consumption is independent of another individuals consumption. When this theory is applied, conspicuous consumption can be explained through the simple instance that most individuals have similar preferences, and consumers desire the same luxurious products simply because the product is appealing, regardless of the preferences of their fellow consumers. Nevertheless, in the opinion of this paper this explanation, not surprisingly commonly argued by avid conspicuous consumers to defend their own consumption, seems naïve. However, the idea that it is ones individual preference to buy a conspicuous good instead of a simple submission to an emotional desire for public recognition probably works as an excellent alibi to allow the personal consumption of wants rather than needs.

Perhaps the most fundamental aspect of status consumption is that it represents a lifestyle. People in developed countries consider status goods a given right,

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and consumers have grown accustomed to this type of consumption to the point where they themselves no longer recognize the triviality of the goods or services they consume, and although the luxury market is currently suffering due to the regression, it is unlikely that there will be anything but an increase in conspicuous consumption in the future when the economy has recovered. As previously mentioned, the Internet will likely be a primary instigator of increased consumption – both through advertising opportunities and direct sales online. Another factor that can cause a rise in status consumption is the increased level of education worldwide. Since there is a clear relationship between education and conspicuous consumption, it is fitting to assume that if more people receive a higher education, then the number of status consumers will increase correspondingly. Also, since the sizeable millennial generation is currently entering the labor force and their aggregate disposable income is on the rise a new group of consumers will be subject to the luxury market. Of course, the baby boom generation is still very much a part of that group of consumers, contributing to an incredibly vast market for luxury suppliers. As for advertising, technology is constantly improving, and the supplier's knowledge and understanding of consumer behavior is continuously improving, so it is entirely plausible that advertisements will become even more abundant than they are today, and that they will also become increasingly influential and convincing. Eventually, a consumer's decision may not depend on his own preference at all but will be fragments of supplier manipulation through advertising, something that can also be avoided by limiting purchasing capacity through money-borrowing constraints. This will force consumers to distinguish between wants and actual needs and to make purchasing decisions accordingly.

Conclusively, status consumption is beneficial for economic growth. It ensures that large amounts of money are not withheld from the global economic

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mechanism, and it also renders tax revenue that can be placed in publicly valuable goods provided that the political system of a country is stable and considers overall welfare a significant goal. Of course, a stable political system is key in every economic endeavor, and therefore assumed in this essay. The problem concerning status consumption is not directly the excess consumption itself, but the way in which the status race pushes people to live above their means. The borrowing of money to spend on conspicuous goods is what needs to be controlled in order for conspicuous consumption to work in a purely beneficial way. Of course, this conclusion is drawn entirely from an economic standpoint. Morally, status consumption is difficult to defend. Although the sense of belonging to a group is considered a biological need, the quest of belonging does not necessarily need to entail unnecessary designer products and ridiculously over-priced goods. However, it seems unrealistic to suggest that people simply stop caring about hierarchy, status or what other people think, instead, the more realistic approach is to embrace the benefits that status consumption entails, while simultaneously introducing borrowing constraints so as to reduce the harmful effects that conspicuous consumption can have on our economy. Conspicuous consumption can have very real effects on the economy and evidence shows that it is an area in need of serious discussion. The fact that information on this particular topic is scarce does not mean that it is unimportant; in fact, one could argue that conspicuous consumption is of dire importance at this particular stage in our economy, and further research on status consumption would be beneficial in reaping the greatest overall benefits from the luxury market in the future.

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