

# DISSERTATION ABSTRACT

## Essays on Conspicuous Consumption: Product Quality, Price Signal, and Counterfeiting

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Conspicuous consumption has become increasingly significant in recent years, as evidenced by the consistent growth in sales of personal luxury goods. In addition, with the help of social media, an increasing number of ordinary items have acquired the characteristics of status goods. In this dissertation, I examine three distinct but interrelated topics that have not received sufficient attention in the previous literature about conspicuous consumption, despite the recent growth of such literature.

In the first chapter of my dissertation, I discuss how the optimal quality of a product would change after it becomes a status good and how this change could impact the market. For conspicuous consumption to occur, certain price levels must exclude low-income consumers while retaining as many high-income consumers as possible in the status goods market. Such separate purchasing decisions necessitate the income effect if consumers with different incomes share a similar preference for a status good. However, due to the income effect, direct value and conspicuous value both generated by a status good become substitutes for consumers who place a premium on conspicuous value. Therefore, when a product becomes a status good and its conspicuous value is activated, its optimal quality may depreciate. Due to this depreciation, consumers who purchase a good solely for its direct value incur a loss, and the market may also suffer a deadweight loss. Moreover, becoming a status good reduces the effectiveness of price as a signal of product quality, as a high price may be associated not only with high quality but also with high conspicuous value and depreciated quality.

In the second chapter of my dissertation, as a follow-up to the discussion of the interaction between conspicuous value and price signal, I discuss how a price signal conveys information about exclusivity to consumers who are uncertain about it and how this price signal influences the market. A price that excludes some consumers from the market for a status good results

in exclusivity and conspicuous consumption. But if rational consumers are not fully aware of the market demand, they may infer from the price signal that such exclusivity can not be too great, because the seller would not otherwise be willing to exclude these consumers at this price. Therefore, a price that supports conspicuous consumption also sends a signal that threatens it by undermining consumers' confidence in exclusivity. This chapter demonstrates that when price sends such a signal, a monopoly seller may need to sell more than he wants to at a lower price, which impairs his profitability and even eliminates conspicuous consumption entirely. A firm with a lower profit from conspicuous consumption will be impacted by the price signal more heavily.

In the final chapter of my dissertation, I discuss counterfeiting as a signal of exclusivity, which may counteract the effect of the price signal discussed in the second chapter and aid in preserving conspicuous consumption. Conspicuous value is activated when the owner of a status good can be distinguished from other consumers who desire the good but cannot afford it. Exclusivity may be threatened if consumers who own the counterfeits cannot be fully identified. Nevertheless, counterfeits may also reveal the preference of potential consumers who cannot afford authentic goods and whose preference is otherwise concealed. When a status good has an adequate direct value and some low-income consumers are purposefully excluded to create exclusivity, counterfeiters can attract them by offering similar direct value at an affordable price. Such a lower price could also make counterfeits discernible at purchase and prevent high-income consumers from purchasing them by mistake, allowing counterfeits to serve as a clear signal indicating the demand only from low-income consumers. This chapter shows that when counterfeiters voluntarily set a lower price that makes their products distinguishable by the price at purchase, but are able to produce goods of comparable quality to authentic goods, counterfeiting may send a signal to support considerable exclusivity, which may contribute to conspicuous consumption.