Three essays on Social Capital, Social Norms, and Social Identity
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PhD thesis summary

For decades, economic theories have been mostly based on rational choices made by selfish individuals to maximize their utility, while sociology spent a lot of efforts describing the environment of individuals and explaining how this environment shapes theirs decisions. However, the last thirty years have seen many sociological concepts appear in the economic literature. For example, behavioral economics introduces things such as envy or altruism in economic theories. Other notions such as social capital, social norms, trust or community became more and more present in economic papers. The objective of this new strand of literature is to engage into sort of socioeconomic approach and to shed some light on interpersonal relationships. This thesis belongs to this socioeconomic approach, and tries to explore new aspects of various concepts. The two first papers are theoretical. In the first one, we explore the negative side of social capital, which has not been studied extensively, by investigating the effect of a norm on consumers when moving is costly. In the second one, we introduce a sociological concept, namely social identity, in a classic economic model in order to show how social interactions modifies its results, and hence, the importance of taking such interpersonal relationships into account. The third and final paper is an empirical case study of social capital in Belgium, an exercise that has not been done before, with the objective of comparing the level of social capital between the various regions of the country.

In the first paper, The Tyranny of Social Norms on Individual Behavior, we study the negative effect of the existence of a norm and moving cost inside a community. Because of deviation cost (such as social shame or peer pressure for example), consumers inside a given community may not reach their ideal consumption, that is the consumption they would have without social constraint. On the other hand, moving to another community may be too expensive (in terms of social assets needed to be part of the new community). Hence, agents may get stuck in their community, being forced to consume something they do not want to. One example of such behavior is the underinvestment in education in some neighborhood. We show that such equilibria are possible and that they may be socially suboptimal equilibria as well as Pareto inferior equilibria. We also show that state intervention can correct those “bad” equilibria by operating transfers between agents in order to lower the moving cost.

In the second paper, Social Identity, Advertising and Market Competition, we use a particular approach of a sociological concept, namely Social Identity, which focuses on the fact that people want to signal who they are to others. We assume that this is done by choosing a specific consumption (think of fashion market for example). We show that under this assumption, the classical result of Bertrand Price Competition does not hold anymore, and that prices and profits are positive, meaning that social identity creates market power for firms. Moreover, if the number of goods is limited, groups will be formed, and there will be multiple equilibria, each one corresponding to a particular
partition of the consumers. We then add the possibility for firms to use advertising. This allows consumers to have a coordination tool, but increases also market powers for firms. We investigate the various equilibria that arise and their impact in term of welfare.

In the third paper, *Social Capital in Belgium*, we construct an index of social capital using the European Social Survey, and we show that this index can be decomposed in three aspects: Trust, Social Activities and Social Network. We then study whether there is a difference in social capital between Belgium’s regions or not. We show that indeed, such difference exists, even when controlling for socioeconomic variables. In a third part, we investigate whether the level of social capital is higher or lower in Belgium than in other European countries, and we analyze European regional differences in term of social capital.