Image concerns and the provision of quality

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Abstract

Consumers may value a good not only for its intrinsic characteristics such as its quality but also for the image associated with buying it. This image can be an inference about the type of person buying the product. A monopolistic producer takes such image concerns into account. In this paper I study quality provision and pricing when some consumers care about their image while others do not. I show that this heterogeneity can induce product differentiation where it would not occur in the absence of image concerns or if everyone valued image. When image concerns are very pronounced, differentiation breaks down and only a high quality product is sold whose price premium corresponds to an exclusive image. I also find product differentiation in a perfectly competitive setup. Both average quality and market coverage are weakly higher under competition than when the producer has market power. The model applies to a range of quality differentiated products from green or ethical products to cars, mobile phones, and computers.

Keywords: image motivation, provision of quality, two-dimensional screening, prosocial behavior, conspicuous consumption

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