

Image concerns and the provision of quality

Jana Friedrichsen*

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. A rational monopolist can take 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 in cases when it would not occur in the absence of image concerns or if everyone valued image. Product differentiation also occurs in a perfectly competitive setup. Both average quality and market coverage are weakly higher under competition than under monopoly. Higher concerns for the image of quality can lead to lower quality provision and welfare. Furthermore, monopoly can yield higher welfare than competition. The model applies to a range of quality differentiated products from green or ethical products to cars, mobile phones, and computers.

Keywords: image motivation, conspicuous consumption, two-dimensional screening

JEL-Code: D21, D82, L15

*Center for Doctoral Studies in Economics, University of Mannheim, Email: janafriedrichsen@gmail.com.