"Summary of article by Harvey Leibenstein: Bandwagon, Snob, and Veblen Effects in the Theory of Consumers' Demand"

"The desire of some consumers to be 'in style,' the attempts by others to attain exclusiveness, and the phenomenon of 'conspicuous consumption,' have as yet not been incorporated into the current theory of consumers' demand."(12) This essay examines the ways in which three types of social interaction between consumers may affect the demand curve for a commodity.

FUNCTIONAL AND NONFUNCTIONAL DEMAND

Demand for a commodity may be either functional, based on qualities inherent in the commodity itself, or nonfunctional, based on other factors. Nonfunctional demand is often a result of external effects on consumers, i.e., cases in which the actions of others make a commodity seem more or less desirable. Three types of such external effects may be distinguished: the "bandwagon" effect, in which an individual's desire for a commodity is increased by other people's purchases; the "snob" effect, in which an individual's desire for a commodity is decreased by other people's purchases; and the "Veblen" effect, or conspicuous consumption, which makes a commodity seem more desirable simply because it is more expensive.

THE BANDWAGON EFFECT

When the bandwagon effect is involved, an individual will demand more (or less) of a commodity at a given price because other individuals also demand more (or less) of that commodity. The resulting "bandwagon demand curve" can be analyzed diagrammatically, as shown in Figure 1.

If we could hold constant the total demand for the commodity, an individual would have a demand curve similar to line D^a. At a higher level of total demand, the individual's demand curve might shift to D^b, or at an even higher level, to D^c. This shift of curves to the right as total demand increases is the graphical representation of the bandwagon effect: it means that, at any given price an individual will buy more if everyone else is also buying more.

But it is not realistic to hold total demand constant if price varies. Total demand for the commodity depends on its price; therefore there is only one price that leads to the level of total demand assumed in D^a. If that price is p^a, for example, then point E^a is the only realistic point on D^a - it is the only point at which the price is consistent with the underlying assumption on which D^a is based. Likewise, only price p^b is consistent with the level of total demand assumed in D^b,
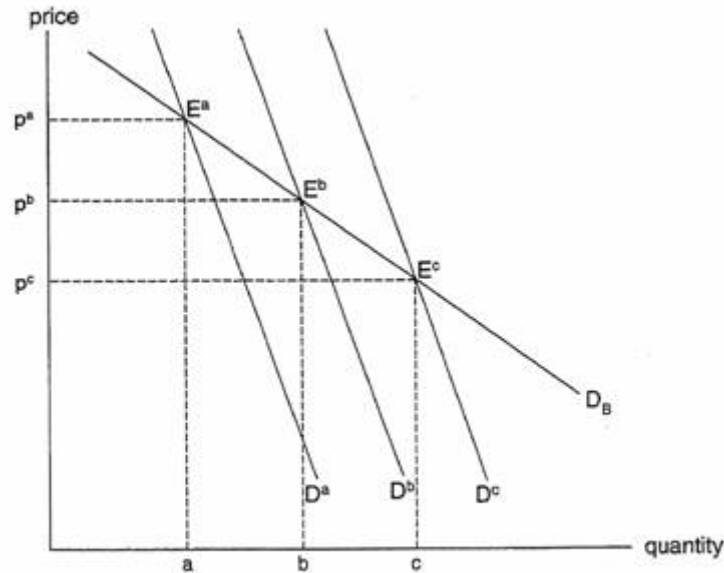
Figure 1. The Bandwagon Effect Demand Curve.

while p^c is the price that is consistent with D^c. These lead to the points E^b and E^c, respectively.

Thus as the price varies from p^a to p^b to p^c, the individual consumer - if he or she recognizes the effect of price changes on others - moves from E^a to E^b to E^c. That is, the consumer's demand curve, in the presence of the bandwagon effect, is the curve D_B. When the price drops, for example from p^a to p^c, demand increases both because of the effect of price on an isolated consumer (which would cause a move from E^a to X), and because of the bandwagon effect of everyone else's increased purchases (which causes a further move from X to E^c).

A very similar analysis can be applied to social taboos, or goods that people will not buy because others are not buying them. This is in effect a reverse bandwagon effect.

THE SNOB EFFECT

When a consumer buys more of a good if others buy less, and vice versa, the snob effect is occurring. The diagrammatic analysis of such an effect is shown in Figure 2.

Again, if we could hold total demand constant, the demand curve for an individual consumer would be D^a at a low level of total demand, D^b at an intermediate level, and D^c at a higher level. In this case, the individual demand curves shift down or to the left as total demand rises, reflecting the snob effect: as other people's consumption rises, an individual's interest in the commodity falls.

As in the analysis of the bandwagon effect, total demand actually depends on price, and only equals the level assumed in D^a at one price, p^a. The point E^a is thus the only realistic point on D^a, and likewise for E^b and E^c on their respective curves. So as price varies, the consumer moves
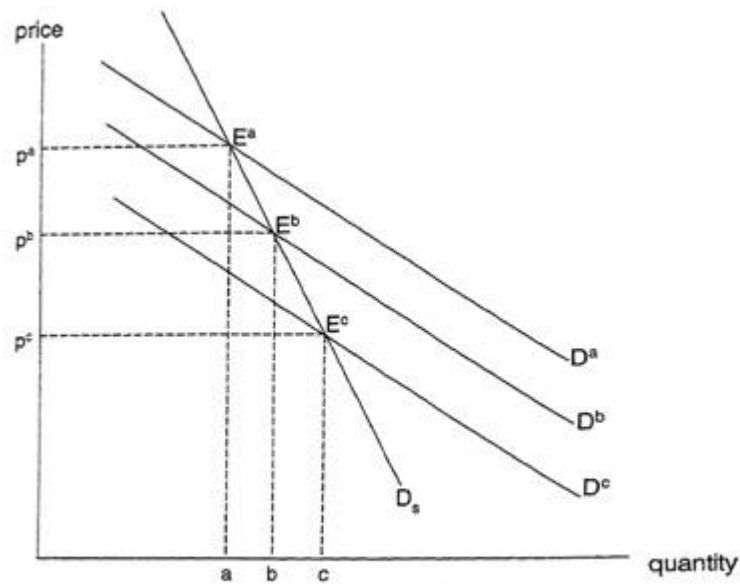
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Figure 2. The Snob Effect Demand Curve.

along the line D_S, the individual's demand curve in the presence of the snob effect. In this case if the price drops from p^a to p^c, there are two opposite effects: an isolated consumer would respond to the price change by moving from E^a to X, a substantial increase in demand; the snob effect, on the other hand, causes a movement from X to E^c, a reduction in demand which partially offsets the individual response. In the case of the snob effect, some of those who would buy the commodity at a higher price, when it is less common, would not buy it at a lower price, contrary to the usual assumption in economic theory.

THE VEBLEN EFFECT

Veblen's theory of conspicuous consumption is a complex and subtle sociological construct, of which only one aspect is addressed here: its effects on the demand curve. Conspicuous consumption implies that the utility derived from a commodity depends not only on the inherent qualities of the good, but also on the price paid for it. The higher the price paid, the more desirable the good appears for purposes of conspicuous consumption.

In this case the diagrammatic analysis in Figure 3 involves demand curves D^a, D^b, and D^c based on assumptions of prices p^a, p^b, and p^c, respectively. As the assumed price increases, the demand curves shift out or to the right, reflecting the increased value of the good at a higher assumed price. However, it is again clear that only one point on each demand curve is realistic, namely the one corresponding to its assumed price. The points E^a, E^b, and E^c trace out the Veblen effect demand curve D_V.
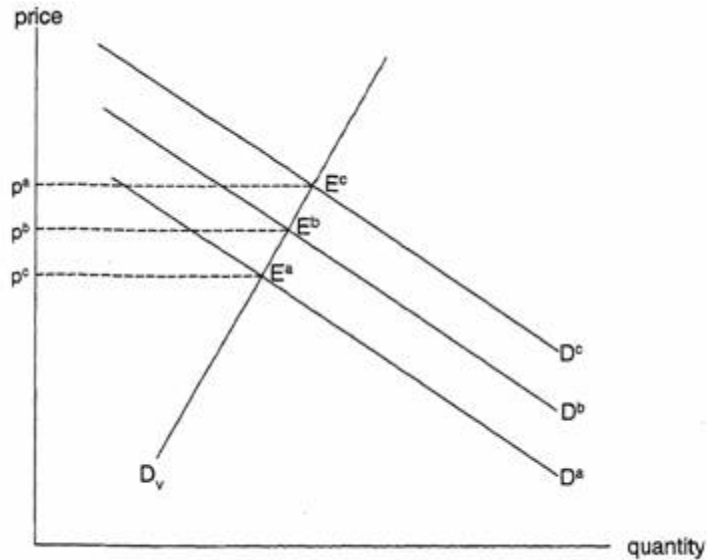
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Figure 3. The Veblen Effect Demand Curve.

Unlike the bandwagon and snob effect demand curves, the Veblen effect demand curve can be either positively sloped (as shown in Figure 3) or negatively sloped, depending on the relative strength of conspicuous consumption and ordinary price effects. In Figure 3, a drop in price from p^c to p^a would move an isolated consumer from E^c to X, an increase in consumption. However the Veblen effect - the lower price makes the good less attractive for purposes of conspicuous consumption - causes a movement from X to E^a, a decrease that outweighs the pure price effect.

In fact, it is possible for a single good to have a demand curve that is positively sloped in some regions and negatively sloped in others. The Veblen effect may predominate only at high prices, for example, while other effects may predominate at lower prices.

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