

# Targeted Advertising and Social Status <sup>\*</sup>

Nick Vikander <sup>†</sup>

September 2010

## Abstract

This paper shows that a firm may use non-targeted advertising to exploit consumers' desire for social status. A monopolist sells multiple varieties of a status good to consumers who each care about what others believe about their wealth. Advertising allows a consumer to buy a variety, and also makes that variety visible to him when others buy.

In equilibrium, the firm advertises each variety to consumers who will buy, but also to all poorer consumers who will not. Poorer consumers then understand what the goods signals, which increases the willingness to pay of those who buy. If concern for status is sufficiently high, then the firm restricts the number of varieties on the market to better promote signaling. Status externalities leave even some wealthy consumers worse off, and a ban on non-targeted advertising will increase social welfare.

---

<sup>\*</sup>I would like to thank my supervisor Maarten Janssen, Bauke Visser, Stefano Puntoni, Chaim Fershtman, Tore Ellingsen and Francisco Ruiz-Aliseda for helpful comments, as well as participants in the III Conference on the Economics of Advertising and Marketing, 2009 European Winter Meeting of the Econometric Society, ASSET 2009, and seminars in Amsterdam, Rotterdam, Stockholm and Copenhagen.

<sup>†</sup>Tinbergen Institute and Erasmus University Rotterdam, vikander@tinbergen.nl, www.tinbergen.nl/~vikander