

Targeted Advertising and Social Status ^{*}

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Abstract

This paper shows firms may use non-targeted advertising to exploit consumers' desire for social status. Each consumer cares about what other consumers believe about his wealth. Advertising transmits information allowing consumers to buy the good, but also to recognize it when others buy.

In equilibrium, the firm uses non-targeted advertising to help consumers signal to each other through their purchases. It advertises to wealthy consumers who will buy, but also to poorer consumers who will not. Doing so ensures they understand what the goods signals, which increases the status and willingness to pay of consumers who buy. Trade may decrease social welfare, and in particular tends to make poorer consumers worse off. The mechanism shows that non-targeted, informative advertising can generate effects often associated with persuasion.

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