Economics of Luxury – Who Buys Luxury Goods?[1]

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Abstract

This paper provides an analysis of economics of luxury, more specifically of consumption behavior focusing on buying luxury goods and their counterfeits. We employ data from own omnibus research in the Czech Republic in a discrete choice model with binary dependent variables and so determine a probability of certain action. Our results imply that people who buy luxury goods could be taken (and are taken) as role models for both supply and demand sides on the market with counterfeits. The data also implies that consumers, who buy luxury goods, buy fake goods as well.

Keywords: *economics of luxury, consumption, conspicuous consumption, luxury goods, Veblen, counterfeit goods*

JEL Classification: A13, D01, D12

1. Introduction

As far as *the economics of crime* intensively analyzes such fields as gambling, prostitution, narcotics or weapon market, one would expect that a market with counterfeit goods is a subject of comprehensive analysis, too. Nevertheless, in a comparison with topics mentioned above, we can safely say that the market with counterfeit goods, i.e. products illegally branded with distinguished trademarks protected by law, provides a large space for research. A market with counterfeit goods seems to be very simple. A buyer decides to buy a fake product that looks like the original one, supplied by the seller, wherein consumer's aim to get "the same product" with lower financial expenses matters.

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However, we should ask: Why does this market even exist? Why are people willing to buy counterfeit goods? Why don't they buy substitutes, i.e. legal products branded by different trademarks, or products without generally known trademarks? Who are producers of counterfeit goods? Since such activity is usually punishable by law[2] why do they risk producing and selling these goods?

All these questions are significant, however, all the answers are related to another question, one that should be answered first – who buys luxury goods?

This question forms the core of the market with counterfeit goods. People, who buy luxury goods, are evidently taken as role-models for consumers of counterfeit goods. The others want to demonstrate the same consumption patterns, even in the situation they cannot afford it. So, they intensively form the demand for imitations of luxury goods (counterfeit goods). Where the demand side with disposable income exists, the supply occurs quickly. And so on… Therefore, the key question – and also the main research goal of this paper – is to define buyer of luxury goods and factors (habits and patterns) that characterize their decision-making.

The paper is composed of follows: Our analysis starts with a review of relevant literature dealing with the topic of luxury goods' consumption and counterfeit goods' consumption. This serves as a base for a formulation of research hypotheses, which is the next chapter of the paper. In the chapter 4, both model and data employed in the empirical analysis are explained. Outcomes of our empirical analysis are presented and discussed in the chapter 5. Conclusion part and list of references close the paper.

2. Economics of Luxury

The review of literature must start with a work of Veblen (1965). He defines (and criticizes) conspicuous consumption and conspicuous leisure as a function of social-class consumerism which is useless and even wasteful, because it does not contribute to the material productivity and therefore to the economy as a whole. A term used for the behavior when individuals buy expensive goods although they can buy cheaper products more or less satisfying the same preferences – Veblen effect – proves the importance of Veblen's work. The so-called Veblen effect is mentioned in several relevant works.

Amaldoss and Jain (2005) explain Veblen effects by distinguishing between snobs (people buy Ferraris, their price is increasing, people feel richer, although the quality of product remains same) and followers (people watch the MTV channel, see brands and imitate their role models). Bagwell and Bernheim (1996)

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[2] E.g. in Italy, a production and even buying and wearing of counterfeit clothes is taken as a violation of the law.

focus on factors forming Veblen effects. They see conspicuous consumption as advertising individual's wealth which affects willingness to pay higher prices. Conspicuous consumer's utility consists of utility from usage (signaling we can afford the good) and utility from status (we demonstrate the status[3]). Begwell and Berheim also say that there is no difference between budget good and luxury good but the price. Becker (1991) makes clear that individual's demand depends on the demand of others. When some good (e.g. restaurant) becomes a must-have, we can observe a positive slope of the demand – as the price increases, people want to consume more.[4] There is a special kind of utility from competing for a good, which is very rare and limited. Akerlof (1997) also concludes that individual's utility depends on others' utility – interactions of people create externalities, i.e. decisions of people have social consequences. From economic perspective, this point really matters – according to Akerlof, the difference between social decisions (social interactions) and conventional economic decisions (choice between product A and B) is that *"the social decisions have social consequences whereas economic decisions do not"* (Akerlof, 1997, p. 1006).[5] In favor of recent Becker's work (e.g. Becker, 1991 or Becker and Murphy, 1993) it is just social interaction, which changes a simple economic decision to social decision, i.e. externality with social consequences. It brings us to the situation that not just our opinions on education, practice of discrimination or family life generate our social status, but it also takes these "simple" decisions about consumption of economic goods from basic micro-economics to complicated matrix of positional goods and status-seeking.[6]

The point is that material goods were, are and will be important factor determining success of an individual. Colloredo-Mansfeld (1994) writes about housing as a key element of households' consumption: a house is an economic message of wellbeing, when a bigger house delivers a bigger message. However, Goldstein et al. (2008), who try to answer the question "do more expensive wines taste better", show that there is only small and even negative correlation between a price of the wine and its taste (blind testing). The positive correlation between a wine quality and a price was proven only within people having certain wine training. Authors

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[3] Griskievicius, Tybur and Van den Bergh (2010) explain the opposite case of "status competition". They consider eco-friendly consumption as competitive altruism and costly prosocial behavior, by which individuals signal their noble (not leisure) preferences.

[4] It does not apply all the time (e.g. books).

[5] Akerlof (dtto) continues: „While my network of friends and relatives are not affected in the least by my choice between apples and oranges, they will be affected by my educational aspirations, my attitudes and practices toward racial discrimination, my childbearing activities, my marriage or divorce, and my involvement in drugs."

[6] The effects if institutional environment (neighborhood) are significantly proved e.g. in Borjas (1995), Crane (1991), Case and Katz (1991), Buck (2001), Duncan, Jones and Moon (1999) or Galster (2012).

conclude that although expensive wines taste worse than cheaper ones, people in reality tend to follow advices of wine experts (sommeliers). This is not because of own taste preferences, but because of signaling and high-end status demonstration.

Well, signaling could be taken as one of the most important factors enforcing conspicuous consumption. Heffetz (2004) provides a comprehensive overview of related theory. He concludes that behind conspicuous consumption, people expect not just direct effects influencing their welfare, but also indirect (social) effects resulting from society observing their choice – findings suggest a prediction up to 20 percent of observed variation in elasticities across consumption categories. Charles, Hurst and Roussanov (2007) analyze consumption behavior of ethnic groups and show that "Blacks and Hispanics" (verbatim) spend higher portion of their disposable income ostentatiously, i.e. on visible and status goods[7] following their role models and differing from reference groups. This conspicuous consumption crowds-out other expenditures, like healthcare, education, etc. Johanson-Stenman and Martinsson (2006) in their article *Honestly, why are you driving a BMW?* point out people derive their utility from having a good self-image, i.e. how they are perceived by others ("environmental concern"), and therefore they behave with the aim to improve (maintain) this image, or at least they pretend to do so. Sundie et al. (2011) set a signaling to the context of sexual selection; we naturally try to improve our social status as improving chance to find a better partner. Sexton (2011) examines why "green" people do prefer Toyota Prius and do not buy Honda Civic Hybrid (same quality, lower price). The answer could provide a green signaling, Sexton suggests: "Consumers may, therefore, undertake costly actions in order to signal their type as environmentally friendly or "green". The status conferred upon demonstration of environmental friendliness is sufficiently prized that homeowners are known to install solar panels on the shaded sides of houses so that their costly investments are visible from the street. We call this behavior "conspicuous conservation".[8]

3. Buying Luxury Goods

Accounting for tastes of people who tend to buy luxury goods and who tend to buy counterfeits, is not a trivial task. According to the available sources, aspects of luxury consumption differ among individuals and countries they live in, i.e. in different countries people purchase luxury goods for different reasons.

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[7] However, status goods are changing quickly (Ireland, 2001).

[8] Then Sexton continues: "Economists have only within the past decade begun to consider the implications of status seeking when individuals attempt to signal their selflessness, a phenomena the psychology literature has termed competitive altruism."

A majority of researched analyzing consumers of luxury goods focus on incentives for buying luxury and utility compared with purchases of ordinary goods. So does the research about counterfeits. Wilcox, Kim and Sen (2009) conclude that consumers' desire for fake goods hinges on social motivations underlying their luxury brand preferences – people tend to consume luxury brands and counterfeits when they believe it adjusts their social position, on the other hand people reprobate consumption of counterfeits only if they consider luxury brand consumption as a part of their value-expressive function. Bearden and Etzel (1982) look into the influence of reference groups on publicly and privately purchased luxuries and necessities.

Hennigs et al. (2012) investigate cross-country differences in consumers' perception of luxury. They find that regardless of their countries of origin, consumers are motivated by similar basic drivers among the financial, functional, personal and social dimensions of luxury. However, they note that the relative importance of these dimensions differs. They find that in the USA, India, Brazil and Italy consumers emphasize personal dimension of luxury perception (hedonic, affective and materialistic aspects of luxury). On the other hand, they find German consumers to be motivated more by the quality and performance aspects (functional dimensions). Furthermore, in India, in contrast with Spain and Italy, consumers are strongly motivated by others' perception of the luxury brand and products. And in France consumers value luxury goods mostly because these are expensive and exclusive. Overall, they identify four different clusters of luxury consumers. In the first cluster are the luxury lovers who are motivated by their strong desire to be unique and for whom luxury consumptions enables to fulfill this desire. The second are the status-seeking hedonists who like to impress other people, who state that *"pleasure is all that matters"* and who also place very low importance on functional aspects. Then there are the satisfied unpretentious, these consumers purchase luxury good for individual reasons rather than to impress people. In the last cluster is the rational functionalist. They primarily believe in the quality of luxury goods. It can be said that while the basic drivers for luxury consumption are similar (especially considering cross-cultural clusters), on the national level there are differences between countries and also between Western and Eastern cultures.

Gao (2009) uses model based on the theory of planned behavior (TPB) to empirically identify dimensions of attitudinal beliefs about purchasing luxury goods in Chinese society and thus to find consumers' motivations for purchasing luxury goods. He finds that both interpersonal effects (conspicuous, social and unique values) and personal effects (quality and hedonic values) impact these beliefs. He finds that the decision to purchase luxury goods is rational process in

which consumers are influenced both by their attitude and normative pressure. Furthermore, he argues that "Chinese affluent consumers purchase luxury fashion goods beyond interpersonal consideration" and that similarly "to the consumers in individualist countries, they are more concerned about the attributes of the luxury goods, which are indicative of personality more than sociality" (Gao, 2009, p. 151). However, he also argues that social support and reference groups such as family, friends, colleagues and spokespersons of luxury brands influence the subjective norm as well as consumers' attitude toward purchasing luxury goods and their perceived behavioral control, which he finds to be the strongest determinants of intention to purchase these goods.

Furthermore, according to Eastman and Eastman (2011) consumers with greater motivation to consume for status are less price and value conscious than other consumers. However, they also note that these same consumers are more brand conscious. They find that the less status-conscious consumers are, the more frivolous they would find buying luxury goods in economic downturn. Moreover, eighty-one percent of respondents in their survey agree that even inexpensive products can have status and that they would be willing to buy status brand at discount stores. They also note that younger consumers are more likely to be motivated to consume for status.

Consumers' motivations to purchase luxury goods are rather complex and it is difficult to identify one dominant factor that would drive such consumption. Surveys in many countries all over the world suggest that motivators range from intrinsic self-satisfying reasons, to the quality assurances of luxury goods, to the exclusivity of buying luxury brands and the brand prominence itself. Furthermore, research also suggests that the relative importance of the various factors is significantly influenced by cultural and socioeconomic aspects that differ between societies.

While many of these studies try to identify consumers' motivations for purchasing luxury goods they are less interested in finding out what kind of people purchase luxury goods and how can a typical luxury consumer be characterized. Following this gap, especially in the context of the Czech Republic, we test association of various consumers' characteristics and the odds that consumers buy luxury goods and try to find probabilities with which are typical consumers likely to buy luxury goods.

4. Model

In order to determine the influence of various characteristics on the probability of buying luxury goods, we formulate discrete choice model with binary dependent variable that can take either value of 1 (respondent buys luxury goods) or 0

(respondent never buys luxury goods). More specifically, the relationship between the probability that the respondent buys luxury goods $p_i = P(y_i = 1)$ and the linear combination of the explanatory variables ti is given by the logistic function:

$$p_i = F(t_i) = \frac{\exp(t_i)}{1 + \exp(t_i)} = \frac{1}{1 + \exp(-t_i)} \tag{1}$$

Substituting the logistic function into odds ratio and taking its logarithm we get the so called logit

$$L_i = ln\left[\frac{P(y_i = 1)}{P(y_i = 0)}\right] = ln\left[\frac{p_i}{1 - p_i}\right] = t_i = \beta \tag{2}$$

where

$x_i^{'}$ – a vector of explanatory variables and

β – a vector of coefficients (including the constant β_0).

The model is then estimated via maximum likelihood estimation using the following likelihood function

$$ln\left[L(\beta)\right] = \sum_{i=1}^{n}\left[y_i ln(p_i) + (1 - y_i) ln(1 - p_i)\right] \tag{3}$$

When dealing with the similar research, researches use logit model (mainly) or probit model. We chose the logit (and not probit) with respects to requirements of the work with data; the logit is easier build and work with, however, both models provide similar results when the probability is calculated between 0.2 and 0.8 probability.[9] In order to estimate our model, we use newly formed dataset. The data were gathered by the computer-assisted personal interviewing (CAPI) method and the resulting sample consists of answers of 1 005 respondents. Respondents were selected using the quota sampling method (QSM)[10] and then further weighted to be representative of the Czech population of age 15 and more. Overall, our model includes 8 explanatory categorical variables – Economic activity, Income, Quality, Counterfeits, Education, Age, Prejudice, Sex and Town size. While the variable Economic activity shows whether respondent is economically active, the variable Income shows into which income group the respondent belongs – whether his income is below 20,000 CZK, between 20,001

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[9] We also considered using a multinomial logit model, however its implementation to the research is not suitable according to the model fit-diagnosis.

[10] CAPI and QSM were carried out in a close cooperation with ppm factum research s.r.o., a well-known and distinguished institution dealing with researching in the Czech Republic. Based on our assumptions and requirements on representativeness of respondents, they created the resulting sample and implemented the CAPI.

– 30,000 CZK, 30,001 – 40,000 CZK or above 40,001 CZK. Education then indicates the level of obtained education – primary, secondary and tertiary. Furthermore, because the influence of age may affect the buying of luxury goods non-linearly, the original continuous variable is transformed into three categories, the 15 – 18 age group, 19 – 65 group, 65 and more. Variable Sex indicates whether respondent is male or female and variable Town size captures the population of town in which the respondent resides. The categories are 0 – 4,999; 5,000 – 19,999; 20,000 – 99,999 and 100,000 and more. Due to incompleteness of the data (income groups), the model employs the final sample consisting of 666 respondents.[11]

Beside the variables capturing respondents' demographics, the other remaining variables capture their stand on luxury goods and counterfeits. The variable Quality shows whether respondents think that the original luxury goods are significantly better, slightly better or equal in quality compared to their counterfeits. Furthermore, variable Counterfeits captures whether they actually buy counterfeits (it is equal to 1 if the respondent buys counterfeits and equal to 0 if he/she never buys counterfeits). And lastly, the variable Prejudice captures respondents' opinion about owners of luxury goods. This variable was created in the following way. First, the respondents were asked to say the first think that comes to their mind if they see people who surround themselves with luxury goods. And second, their answers were then divided into three groups – those that had clear positive undertone, those with clear negative undertone and the third groups including those that were ambiguous (or the respondent did not know).

5. Results

The diagnostics of the model are provided in the Table 1. The Table 2 provides the results of the model.

T a b l e 1

Model Diagnostics

Model diagnostics	
N	666
Chi-square	367.447107 (p-value < 0.000)
Nagelkerke R Square	0.572251
Cox & Snell R Square	0.425105
Hosmer and Lemeshow Test (p-value)	0.192592
Predicted percentage in full model	83.624618%
Predicted percentage in model without predictors	58.367782%

Source: Own calculations.

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[11] The decrease of N is spread relatively across the sample, so we anticipate no (or very rare) selectivity bias here.

Table 2

Model Results

Model results								
	B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
							Lower	*Upper*
LUX3_b2	2.594	.254	103.959	1	.000	13.383	8.128	22.035
LUX2_b2			19.654	2	.000			
LUX2_b2(1)	.644	.307	4.400	1	.036	1.904	1.043	3.476
LUX2_b2(2)	–.744	.248	9.023	1	.003	.475	.293	.772
LUX4			30.501	2	.000			
LUX4(1)	1.646	.346	22.568	1	.000	5.184	2.629	10.221
LUX4(2)	.478	.329	2.115	1	.146	1.613	.847	3.071
INC			10.769	3	.013			
INC(1)	.635	.325	3.818	1	.051	1.888	.998	3.571
INC(2)	.726	.353	4.228	1	.040	2.068	1.035	4.133
INC(3)	1.200	.366	10.766	1	.001	3.319	1.621	6.796
AGE_b			13.131	2	.001			
AGE_b(1)	2.284	.691	10.941	1	.001	9.820	2.537	38.019
AGE_b(2)	.995	.371	7.191	1	.007	2.706	1.307	5.602
ACT(1)	.774	.272	8.103	1	.004	2.168	.271	.786
EDU			23.723	2	.000			
EDU(1)	1.107	.252	19.216	1	.000	3.024	1.844	4.960
EDU(2)	1.288	.376	11.729	1	.001	3.624	1.734	7.572
Constant	–2.989	.745	16.089	1	.000	.050		

Source: Own calculations.

Table 3

Categorical Variables Coding

		Frequency	Parameter coding		
			(1)	(2)	(3)
Gross income of household	Below 20.000 CZK [reference]	130	.000	.000	.000
	20.001 – 30.000 CZK [INC(1)]	173	1.000	.000	.000
	30.001 – 40.000 CZK [INC(2)]	163	.000	1.000	.000
	More than 40.000 CZK [INC(3)]	200	.000	.000	1.000
Do you consider any difference in a quality of original good and a counterfeit?	Original good is significantly better than counterfeit good [LUX4(1)]	291	1.000	.000	
	Original good is slightly better than counterfeit good [LUX4(2)]	279	.000	1.000	
	There is no difference between the quality of original good and counterfeit good [reference]	96	.000	.000	
Education	Primary education [reference]	340	.000	.000	
	High school [EDU(1)]	245	1.000	.000	
	University [EDU(2)]	81	.000	1.000	
Age	Students (15 – 18 yrs) [AGE_b(1)]	23	1.000	.000	
	Active (19 – 65 yrs) [AGE_b(2)]	548	.000	1.000	
	Retired (65 yrs +) [reference]	95	.000	.000	
How do you perceive people who buy and wear luxury goods?	Positively [LUX2_b2(1)]	147	1.000	.000	
	Negatively [LUX2_b2(2)]	201	.000	1.000	
	Neutrally / Unclearly [reference]	318	.000	.000	

Source: Own calculations.

Considering the statistics presented in Table 1, the estimated model fits the data well. As is evident from the Chi-square, the overall model is statistically significant and it explains approximately 57 percent (respectively 42 percent) of the dependent variable variance. Furthermore, the fully specified model is able to correctly predict 83.62 percent of the observations (in comparison with the 58.37 percent of the simple model without predictors).

Table 2 presents the estimated results. Beside the reported independent variables we also tested the influence of sex and size of town in which the respondent resides. However, since both variables were statistically insignificant, they were dropped from the final model.

Looking at the results, we can see that, interestingly, the most important factor appears to be whether the respondent buys counterfeits. The odds of buying luxury goods of someone who also buys counterfeits is 13.38 times greater (1,338 percent higher) than odds of someone who does not buy counterfeits at all. It is in accordance with literature (e.g. Congleton, 1989) concluding that final status could be provided by his status-seeking activities and not by final (aggregate) consumption. If we consider finding of information about posh brands, finding of market with counterfeits, finding of authentic fake products, etc. as status-seeking activities, we can say that people use conspicuous consumption (demonstration), no matter is genuine or fake goods, as a status-seeking tool and also as a status-fixing tool – one could buy counterfeits to improve her status and get closer to her reference group and then she could fix (maintain) the social status with consumption of genuine luxury goods.[12] However, as e.g. Granovetter (2005) concludes, awareness plays a major role here. Ability to pretend demonstrative consumption via fake goods depends on reference groups and their information about luxuries and necessities. Counterfeits-consumer can easily pretend her wealthy among individuals with no information about distribution channels, characteristics or protective elements of original goods. When social status rises, a possibility to demonstrate via fakes declines because information asymmetry between counterfeits-consumer and her references groups diminishes. So, the individual has to maintain her social status via original goods.[13]

When people view other people who own luxury goods positively, their odds of buying luxury goods are 1.9 times higher than odds of people who have neutral or ambiguous attitude towards people who own luxury goods. On the other hand, when they view them negatively, their odds of buying luxury goods are

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[12] From this perspective, it could be interesting to employ the data describing time development of values and preferences of people who bought counterfeits and then quit the market and have started buying genuine goods.

[13] This hypothesis is a core of our following research.

0.475 times lower (52.5 percent lower) than those of neutral attitude. And finally, the odds of buying luxury goods of people with positive attitude are 4.01 times those of people with negative attitude.

Those who think that luxury goods have significantly higher quality than their counterfeits have 5.18 greater odds of buying luxury goods than those who do not think there is a difference. Those who think that the difference is only slight have 1.615 times greater odds of buying than those who do not think there is a difference.

Looking at the results of household income, we can see that the higher the income, the higher the odds of buying luxury goods with comparison to the lowest income group. Those with household income between 20,001 and 30,000 CZK have 1.89 times the odds of buying of those with income equal or below 20,000 CZK. Similarly, those with income between 30,001 and 40,000 have 2.07 higher odds and those with income above 40,000 have 3.32 times higher odds than those in the lowest income group.

With higher age, the odds of buying luxury goods decrease. While children between 15 and 18 years of age have 9.82 higher odds of buying luxury goods than people aged 65 and more, people between 19 and 64 years of age have only 2.71 higher odds than those aged 65 and more.

Those who are economically active have 2.17 higher odds of buying luxuries than those who are inactive.

Finally, looking at the influence of education, we can see that secondary graduates have 3.02 times the odds of only primary school graduates and people with tertiary education have 3.62 times greater odds.

Having discussed the model fit and results, we can use it to predict the probability of buying luxury goods for people with certain characteristics. For example, let's consider an individual who is economically inactive and of age between 15 and 18 years, with completed primary education (therefore, very likely a high school student), from household with income 20,001 – 30,000 CZK, who considers luxury goods and counterfeits as substitutes concerning their quality, perceives a consumption of luxury goods as a positive aspect and who also buys counterfeits. According to our model´s results, probability of buying luxury goods for such an individual will be 0.87. To stress the importance of buying counterfeits when determining probability of buying luxury goods, the same individual but one who never buys counterfeits has probability of buying luxury goods only 0.33.

Another interesting example provides a retired pensioner with primary education from the low-end income household, who considers luxury goods as significantly better than fake goods, who however perceives a consumption of luxury

goods negatively and who never buys counterfeits. His/hers probability of buying luxury goods is 0.11. However, if he would also buy counterfeits, his probability would be 0.62.

Lastly, someone who is economically active, has university degree, lives in a high-end income household, who considers luxury goods as significantly better compared to their counterfeits, who moreover, perceives people surrounding themselves with luxury goods positively and who also buys counterfeits, has probability of buying luxury goods equal to 0.99. Interestingly, if such an individual would never buy counterfeits, his probability of buying luxury goods would be 0.93.

As we can see in the previous examples, whether people also buy counterfeits is an important factor for determining probability of buying luxury goods, especially for people who are given their other characteristics less likely to buy them. On the other hand, when people are already likely to buy luxuries, whether they do or do not buy counterfeits is no longer as important factor when determining the probability (this effect is due to the nonlinear nature of the model).

Conclusion

The paper provides an analysis of characteristics that form motivations for buying luxury goods, with respect to the fact that consumption of counterfeit goods could be taken as a substitute for certain groups of consumers. Recent studies conclude that the main reasons for conspicuous consumption are more or less identical, although relative importance of this or that aspect could differ among individual regions of our planet with different social, economic or religious environment. Nevertheless, we believe our results obtained in the Czech context could be also used when analyzing other countries, at least as a benchmark. According to the results of our model, we can form three main findings.

Firstly, our calculations show that luxury goods are very important element in a process of social status building, status seeking and status fixing (maintaining). An individual, who perceives others with luxury goods positively, is more likely to buy luxury goods. A motivation to buy and poses luxury goods is formed mainly by demonstration effect, i.e. an effort to incline to a higher social group, or to follow role-models in a reference group in which she is a member or would like to be a member.

Secondly, luxury and wealth are definitely related. We show that a probability of buying luxury goods increases with higher income of a household. People, who are able to cover their necessities with lower relative spending/income ratio, have more resources on buying luxuries. So, a textbook definition of a luxury

good i.e. a good with a high income elasticity of demand (a good with convex shaped Engel curve) really matters here.

And thirdly, the data indicates that demonstrative (conspicuous, ostentatious) consumption is a natural part of individuals' utility functions and there is no reason for thinking it should change after the day that some regulation will be implied. As Sundie et al. (2011) state, it could be taken as a component of natural selection process – when buying luxury goods, those consumers signal they are wealthy, they are able to make a living, i.e. they are able to secure fine life conditions for a partner (and children). This forms a motivation to possess luxury goods, or at least, to pretend so. The final social status of the individual is not a linear function following price tags of luxuries. It is more complex – a function that includes all costs spent on status seeking. Purchasing of counterfeits leads to pretended demonstrative consumption, which can – with respect to reference groups – do the trick as well. It is obvious that the market with counterfeits is demand-driven, not vice versa. Regulators fighting against organized crime with counterfeiting should respect this conclusion.

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