

The Cost of Prestige – an application of the regression discontinuity design to understand status-driven consumption

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Abstract

People often purchase products and brands to signal their status. How important are these considerations in people's purchase decisions, and more specifically, how much are people willing to pay for status signalling? There is scant empirical evidence on this topic. In this paper, we empirically investigate the effect of status consumption in the context of residential real estate. We use real estate transaction data from a major metropolitan area in Australia to measure the effect of perceived prestige on real estate valuation. We develop an identification strategy by exploiting the institutional feature of local administrative zones and their boundaries. In the process, we rule out of factors such as unobserved neighbourhood characteristics and school zones as potential explanations of the price effect observed.

Subject Areas: *Branding, Pricing, Public Policy*

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