

## **THE EFFECTS OF CONSUMER'S BEHAVIOR IN THE THEORY OF CONSUMER'S DEMAND**

The desire of some consumers to be in style, the attempts by others to attain exclusiveness, and the phenomena of 'conspicuous consumption' have as yet not been incorporated into the current theory of consumer's demand. The purpose is to analyze the effects of the customer's behavior in the theory of customer's demand.

The demand for consumer's goods and services may be classified according to the motivation. The following classification is on the level of abstraction which includes most of the motivations behind consumer's demand (Fig. 1).

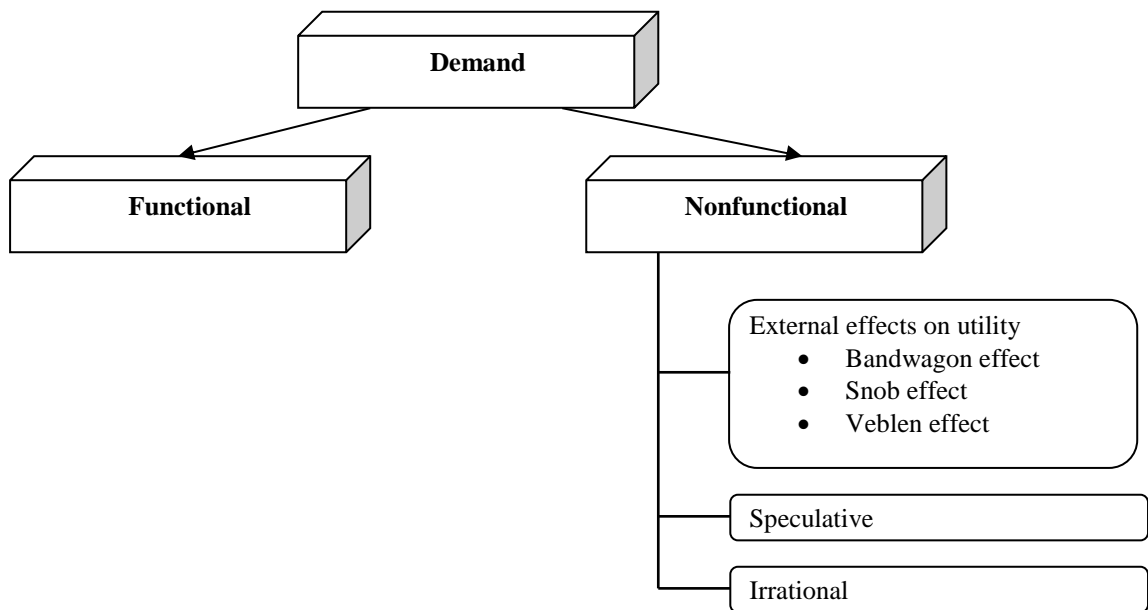


Fig. 1. The classification of the consumer's demand

By functional demand is meant that part of the demand for a commodity which is due to the qualities inherent in the commodity itself. By nonfunctional demand is meant that portion of the demand for a consumers' good which is due to factors other than the qualities inherent in the commodity. Probably the most important kind of nonfunctional demand is due to external effects on utility. That is, the utility derived from the commodity is enhanced or decreased owing to the fact that others are purchasing and consuming the same commodity, or owing to

the fact that the commodity bears a higher rather than a lower price tag. We differentiate this type of demand into the 'bandwagon' effect, the 'snob' effect and the 'Veblen' effect.

By the bandwagon effect the demand for a commodity is increased due to the fact that others are also consuming the same commodity. It represents the desire of people to purchase a commodity in order to get into 'the swim of things'; in order to conform with the people they wish to be associated with; in order to be fashionable or stylish; in order to appear to be "one of the boys".

By the snob effect the demand for the consumers' good is decreased owing to the fact that others are also consuming the same commodity or that others are increasing their consumption of that commodity. This represents the desire of people to be exclusive; to be different; to dissociate themselves from the 'common herd'.

By the Veblen effect we refer to the phenomenon of conspicuous consumption; to the extent to which the demand for the consumer's good is increased because it bears a higher rather than a lower price. The distinction between the snob and the Veblen effect – the former is a function of the consumption of others, the latter is a function of price.

Speculative demand refers to the fact that people will often 'lay in' a supply of a commodity because they expect its price to rise.

Irrational demand is a catchall category. It refers to purchases that are neither planned nor calculated but are due to sudden urges, whims and that serve no rational purpose but that of satisfying sudden whims and desires. Income is a parameter. If income is not given but allowed to vary, then the income effect on demand may in most cases be the most important effect at all.

This is only one of a large number of possible classifications of the types of consumer's demand – classifications that for some purposes may be superior to the one here employed. That's why the above classification can be used only for the purposes at hand and make no claims about its effectiveness in any other case.

#### References:

1. Leibenstein H. Bandwagon, Snob and Veblen Effects In The Theory Of Consumer's Demand, Quarterly Journal Of Economics, Vol. LXIV, 2, 1950. – pp. 183-207.

2. Samuelson P. Foundations of Economic Analysis, 1947. – p. 350.