

EVIDENCE-INSIGHTS-POLICY

STATUS GOODS: EXPERIMENTAL EVIDENCE FROM PLATINUM CREDIT CARDS

CONTEXT

A desire to signal high income or wealth may prompt consumers to purchase status goods. The poor around the world spend a large share of their income on visible expenditures, which may have negative implications for asset accumulation, household indebtedness, and investments in education.

Bursztyrn, Ferman, Fiorin, Kanz and Rao (2018) conducted a series of randomized evaluations to explore the psychological factors that explain the demand for status goods. Authors worked with a large bank in Indonesia that markets platinum credit cards, a classic example of a visible status good, and experimented with offers of upgrading to more prestigious credit cards. (Figure 1)

Figure 1. The bank offers three types of credit cards, classic, gold and platinum, which are vertically differentiated by income requirements and appearance.



INTERVENTIONS

Experiment 1: To test the demand for the pure status component of a good, the partner bank randomly offered 835 existing gold-card holders one of two upgrade packages.

- (1) Platinum card upgrade: an upgrade to an actual platinum card.
- (2) Benefit-only upgrade: an upgrade to all financial services and benefits of the platinum card as an add-on to the current gold card.

The only difference between the two offers was the visible status aspect of the card.

Experiment 2: To test whether the exclusivity of a status good matters regarding its demand, the bank offered one of the following treatments to 93 existing platinum-card holders. This intervention took advantage of recent changes to the bank's credit card policy; the bank reduced the eligibility criteria for the platinum card and was considering introducing a new credit card tier above platinum—the diamond card.

- (1) Diamond card upgrade: Customers were offered an upgrade to a new diamond card with the same benefits

and eligibility as the platinum card but a different, more expensive card design.

(2) Diamond card upgrade with information on eligibility criterion changes: Customers received the same offer for the new diamond card and were informed that the income criterion for the platinum card had recently been reduced.

Experiment 3: To understand the psychological factors behind status-signaling behavior, authors tested the impact of self-image on the demand for status goods; 167 existing gold-card holders were offered the upgrade deal as in Experiment 1, but prior to this offer, customers in treatment groups were asked to talk about an accomplishment that made them feel proud of themselves, temporarily boosting their self-esteem (ego-boost intervention).

FINDINGS

Experiment 1: Customers were willing to pay a significant amount of money to gain social status. Take-up of the offer was approximately 7 percentage points higher in the platinum upgrade group than the benefits-only group; take-up rates were 21 percent and 13.7 percent, respectively. Researchers estimated that the average customer valued the status aspect of the card at Rp. 218,000 (US\$15.50) per year.

Experiment 2: The exclusivity of the platinum card mattered with regards to its demand. Providing the additional information on lowering the eligibility criterion of the platinum card nearly doubled the take-up of the new diamond card from 21 percent to 40 percent. This implies that extending the platinum membership to lower-income consumers weakens the status signal of the platinum card.

Experiment 3: Higher self-esteem causally reduced the demand for status goods. Customers who received the ego-boost intervention had lower demands for status goods, suggesting that people demand status goods to compensate for low self-esteem.

LEARNINGS

- People are willing to pay significant amounts of money to gain social status, and the demand for status goods is affected by who else can afford them
- Higher self-esteem causally reduces demand for status goods

Understanding the effect of self-esteem on economic choices is an important topic of future research, especially in settings where self-esteem may be especially low, such as in populations facing poverty, low social status, and negative stereotypes.