



Herding and Status Seeking Behavior: Evidence from Conspicuous Consumption at Social Events in Kyrgyzstan

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The Story of Ulan

Ulan, 43 years old, lives in Bishkek city of Kyrgyzstan. 15 years ago, he took a loan from the bank to have a wedding. This wedding was very important in his life because he wanted to show his position to his social circle by spending much money. As a result, after the wedding, they could not pay the loan. He claims that increasing conspicuous consumption at a social event to increase status would lead to poverty. There are many cases where people like Ulan spend a lot of money on social events to show their dignity to others.

Why do people spend so much money?

Is it status seeking or herding behavior?

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Background Information

- Households live in a society where most of their spending on social events is visible to others (Charles et al., 2009; Chai et al., 2019).
- People in Central Asian countries spend most of their income on social events. Thus, in Tajikistan, Uzbekistan and Kyrgyzstan, a law was passed banning conspicuous consumption at social events (Danzer, 2013; Aldashev, 2019).
- Talieva, (2013) report household social spending may reach to \$1-2 billion where GDP is about \$ 7 billion in Kyrgyzstan.
- As people become wealthier, they tend to spend more on visible goods (Grier, Hicks and Yuan 2015; Heffetz 2011).
- Conspicuous consumption is observed not only among the rich, but also among the poor at social events (Case et al., 2008; Brown et al., 2011).
- So, such expenditures may perpetuate poverty rather than helping households move out of poverty in CA countries.

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Literature review

- Rank-based status model (theory) developed by Frank (1985), Robson (1992) and Hopkins and Kornienko (2004) was used to distinguish status-seeking from herding behavior.
- Households races for high rank through conspicuous consumption. Income distribution determines the intensity of local competition for the higher rank (Hopkins and Kornienko, 2004; Brown et. al., 2011).
- Density of people with the same income increases the intensity of competition for status between households (Brown et. al., 2011)
- More intense competition for status leads to more conspicuous consumption (Brown et. al., 2011).

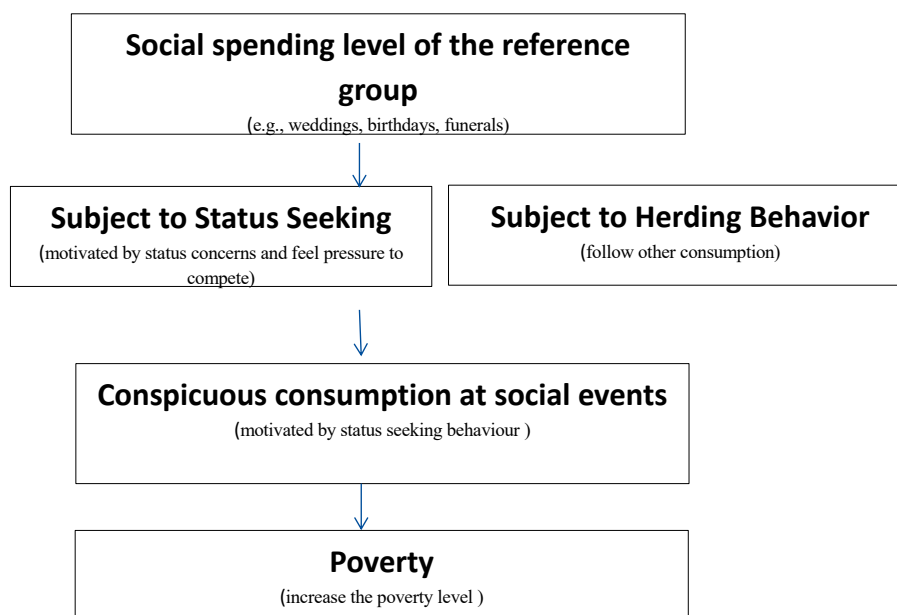
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Definition of two basic behaviors

- **Herding behavior:** idea that we follow other people.
- **Status seeking:** special case of social spending focuses on status for a concern about relative consumption (“keep up with Joneses”)
- **Keep up with Joneses:** want the same expensive objects as your reference group because you are worried about seeming less important (utility function depend not only on the absolute level of consumption, but also on the average level of consumption of reference group) (Duesenberry, 1949; Pollack, 1976; Frank, 1985).
- **Herding behavior** is determined by one's own consumer behavior relative to the average behavior of a reference group, but the interaction between income distribution and income group shows the existence of **status seeking behavior** (Hopkins and Kornienko, 2004; Brown et. al., 2011).

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Conceptual Framework



Source: author's work inspired by the study Brown et al. (2011)

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Research Questions

- Do people follow other social spending on social events (is there herding behavior in Kyrgyzstan)?
- Do poor people spend more to compete for status in social events within their reference group (is there status seeking behavior in Kyrgyzstan)?

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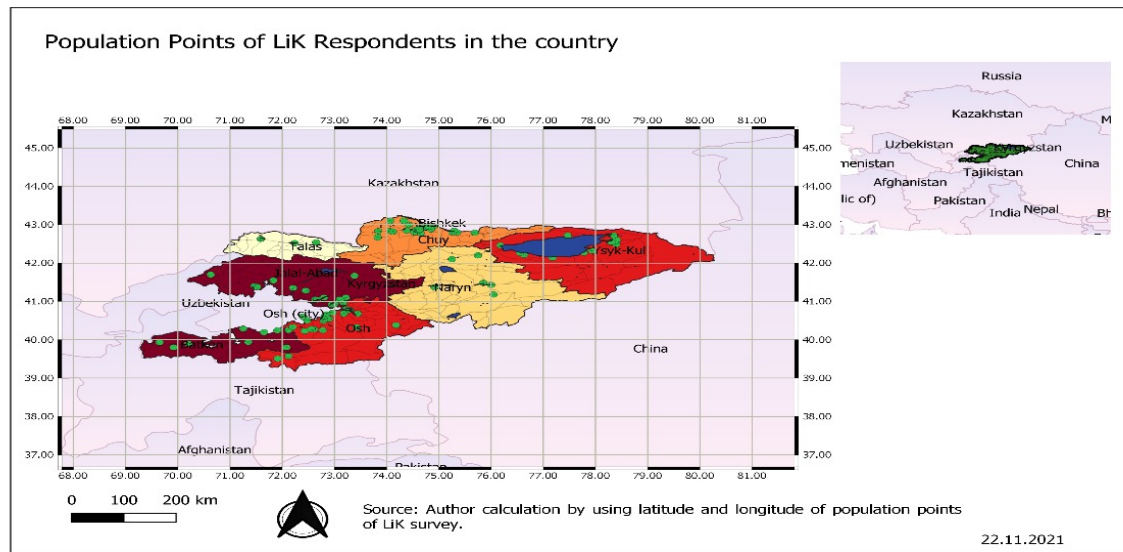
Contribution

Limited studies (Chai et al., 2019; Charles et al., 2009; Brown et al., 2011; Hopkins & Kornienko, 2004).

- ✓ A previous study by Brown et al. (2011) did not use nationally representative data.
- ✓ Previous studies investigate the status seeking only in one period (no multiple time period to eliminate the time invariant unobserved heterogeneity)
- ✓ We provide the evidence of status seeking behavior among poor (in consistence with rank-based status model) for our Central Asian setting.

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Study area



Source: Author's calculations by using latitude and longitude of population points of LiK (Life in Kyrgyzstan) survey.

3000 households were drawn through **stratified two-stage random sampling**.

- 1) First, **16 strata** are formed by Bishkek city, Osh city, and the rural and urban areas of the seven oblasts, totally 16 strata.
- 2) At the **first stage**, population points were drawn in each stratum according to proportion to population size.
- 3) At the **second stage**, 25 households were drawn in each population point.

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Descriptive Statistics

Social event exp. includes weddings, birthdays, anniversaries, funerals, birth of a baby (beshik toy, sunnot toy), new house/car celebration.

Table 1. Households with and w/o (without) social spending by years.

Year	All		with social event exp.		w/o social event exp.	
2010	3000	100%	1 965	65%	1 035	35%
2011	2 863	100%	1 867	66%	996	34%
2012	2 816	100%	2 051	73%	765	27%
2013	2 581	100%	1 795	70%	786	30%
2016	2 529	100%	1 989	79%	540	21%

Source: Authors' calculation

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Methodology

$$SE_{ijt} = \beta_1 \log(I)_{ijt} + \beta_2 MSE_{jt-1} + \gamma_1 ID_{jt} + \gamma_2 D_{ijt} + \gamma_3 ID_{jt} * D_{ijt} + H_{ijt} + u_{ij} + \varepsilon_{ijt}$$

SE_{ijt} is the expenditure on social event of household i in oblast j and time t .

$\log(I)_{ijt}$ is the log of households per capita income in the current period (t)

MSE_{jt-1} is the lagged median of social expenditures at oblast level

ID_{jt} is a measure of the income distribution at the oblast level

D_{ijt} are dummies indicating to which income groups (lowest, medium, highest) the respective household belongs to

$ID_{jt} * D_{ijt}$ interactions between the income group and the income distribution.

H_{ijt} is observable household time variant characteristics

u_{ij} is the unobserved time-invariant household effect

ε_{ijt} is an independently and identically distributed (i.i.d.) error term

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Result

Table 2. Fixed effect panel data model for social event expenditure.

	Gini	Skewness	Kurtosis	SK*KT
Lagged median spending on social events	-0.163*	-0.087	-0.069	-0.061
Per capita income (log)	0.100**	0.032	0.038	0.040
Male head of household (dummy)	-0.118	-0.136	-0.135	-0.133
Head of household aged 60 and above (dummy)	-0.114	-0.120	-0.019	-0.119
Household size	-0.114***	-0.120***	-0.119***	-0.119***
Wedding	2.103***	2.081***	2.079***	2.081***
Dummy for bottom income group	-0.973***	-0.191*	-0.162*	-0.138
Dummy for middle income group	0.872***	-0.055	-0.069	-0.084
Income distribution	2.497***	-0.001	0.000	0.000
Dummy for bottom income group*ID	2.232***	0.011	0.001	0.000
Dummy for medium income group*ID	1.929***	-0.015	-0.001	-0.000
N	5301	5301	5301	5301
r2_w	0.257	0.252	0.252	0.252

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Conclusion

- Our five-year panel analysis reveals the presence of status-seeking behavior, which shows competition for high rank through overconsumption at social events because statistically significant interaction terms support the idea that spending on social events reflects positional interests rather than just herding behaviour.
- Findings support rank-based status model suggesting that a higher density of households with the same income increases the intensity of competition for status between people in the same income group.
- We find evidence that status seeking consumption exist among poor:
 - The poor tend to spend more expenditure on social event when there is more unequal income in bottom income group.
 - Social spending is status seeking and poor feel the greatest pressure to compete.
- Wedding is highly visible and grandiose spending:
 - Households with wedding expense spent 2 times more expense than those who had not wedding expense.

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Thank you!!!

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