

THORSTEIN VEBLEN'S "HIDDEN UTILITY"

A THESIS SUBMITTED TO  
THE GRADUATE SCHOOL OF SOCIAL SCIENCES  
OF  
MIDDLE EAST TECHNICAL UNIVERSITY

BY

ASLI KURŞUNCU

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS  
FOR  
THE DEGREE OF MASTER OF SCIENCE  
IN  
THE DEPARTMENT OF ECONOMICS

FEBRUARY 2014

Approval of the Graduate School of Economics and Administrative Sciences

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Prof. Dr. Meliha Altunışık  
Director

I certify that this thesis satisfies all the requirements as a thesis for the degree of Master of Science.

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Prof. Dr. Nadir Öcal  
Head of Department

This is to certify that we have read this thesis and that in our opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Science.

---

Dr. Çınla Akdere  
Supervisor

**Examining Committee Members**

Dr. Çınla Akdere (METU, ECON)

Assoc. Prof. Dr. Sinan Gönül (METU, BA)

Assoc. Prof. Dr. Gökçer Özgür (HÜ, ECON)

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Name, Last name : ASLI KURŞUNCU

Signature

## **ABSTRACT**

Thorstein Veblen's "Hidden Utility"

Kurşuncu, Aslı

M.S., Department of Economics

Supervisor : Dr. Çınla Akdere

February 2014, 89 pages

Economic studies and empirical experiments based on psychological and sociological facts have promoted new approaches particularly in the last 20 years. Although developments and studies on human behavior are high on the rise, systems that can specifically explain human behavior have not been fully developed yet. In this manner, the main aim of this thesis is to define and analyze the secondary utility presented by Veblen in *The Theory of Leisure Class* (1899) and take it as the genesis of a new type of utility: "hidden utility". Thesis will lean on the relationship between the secondary utility and the heuristics and psychological mechanisms that are used for maximizing the "hidden utility". The "Hidden utility" will combine Veblen's concepts, pecuniary emulation and conspicuous consumption with heuristics and psychological mechanisms utilized for decision making

*Keywords: Veblen, hidden utility, heuristics & psychological mechanisms*

## ÖZ

### Thorstein Veblen'in Gizli Fayda Kavramı

Kurşuncu, Aslı

Yüksek Lisans, Ekonomi Bölümü

Tez Yöneticisi: Dr. Çınla Akdere

Şubat 2014, 89 sayfa

Özellikle son 20 yılda psikolojik ve sosyolojik temellere dayanan ekonomik çalışmaların ve ampirik deneylerin neoklasik iktisata yeni yaklaşımlar kattığı görülmektedir. İnsan davranışını açıklama üzerine gelişmeler ve araştırmalar artıyor olmasına rağmen, insan davranışını tam olarak açıklayabilen sistemler henüz oluşturulamamıştır. Bu noktada, tezin ana amacı “gizli fayda” kavramının temeli olan Veblen'in “Aylak Sınıfın Teorisi” (1899) eserinde yer verdiği ikincil fayda kavramını incelemektir. Bu kapsamda tezde gizli faydanın maksimize edilmesinde kullanılan ikincil fayda ile kavramsal sezgiler ve psikolojik mekanizmalar ilişkilendirilecektir. Gizli fayda kavramı, Veblen tarafından ortaya konan öykünme ve gösterişli tüketim kavramları ile karar süreçlerinde kullanılan kavramsal sezgiler ve psikolojik mekanizmalarını birleştirmektedir.

Anahtar Kelimeler: Veblen, gizli fayda kavramsal sezgi ve psikolojik mekanizmalar

To my loving parents

## **ACKNOWLEDGEMENTS**

This thesis would not have been possible without the encouragement, support, and guidance of many people. Immeasurable appreciation and deepest gratitude for the help and support are extended to the following people who in one way or another have contributed in making this study possible.

I would like to express my deepest appreciation to my thesis adviser, Dr. Çınla Akdere, whose guidance and constant support helped me throughout this thesis. I feel lucky and honored to work with her.

Most importantly, I want to give my special thanks to my parents and my brother. I would like you to know that you are all my inspiration and motivation for everything. Thank you very much for your endless love and for supporting me and allowing me to follow my ambitions throughout my childhood.

## TABLE OF CONTENTS

|  |      |
|--|------|
| PLAGIARISM.....  | iii  |
| ABSTRACT .....   | iv   |
| ÖZ.....  | v    |
| DEDICATION.....  | vi   |
| ACKNOWLEDGEMENTS .....   | vii  |
| TABLE OF CONTENTS .....  | viii |
| LIST OF TABLES.....  | x    |
| LIST OF FIGURES .....  | xi   |
| CHAPTER  |      |
| 1. INTRODUCTION.....   | 1    |
| 2. EMERGENCE OF CLASS SOCIETY.....   | 5    |
| 3. UTILITY CONCEPT .....   | 11   |
| 3.1. Primary Utility.....  | 11   |
| 3.2. Secondary Utility .....   | 14   |
| 3.3. Exploration of the Secondary Utility .....                                | 19   |
| 4. HIDDEN UTILITY .....  | 25   |
| 4.1. The Bond Between Veblen and Psychological Mechanisms &<br>Heuristics..... | 26   |
| 4.2. Emulation .....   | 28   |
| 4.3. Anchoring & Adjustment .....  | 32   |
| 4.4. Obedience to Authority .....  | 37   |
| 4.5. Association and Signaling .....   | 48   |
| 4.6. Availability Heuristic.....   | 51   |
| 5. MARKETING & HIDDEN UTILITY .....  | 59   |
| 6. CONCLUSION .....  | 66   |
| REFERENCES .....   | 71   |

## APPENDICES

|                                    |    |
|------------------------------------|----|
| A. TURKISH SUMMARY .....           | 77 |
| B. TEZ FOTOKOPİSİ İZİN FORMU ..... | 89 |

## LIST OF TABLES

### TABLES

|  |    |
|--|----|
| Table 1: Most Common Girl Names .....  | 40 |
| Table 2: Most Common Boy Names .....   | 41 |
| Table 3: Most Popular White Girl Names .....   | 42 |
| Table 4: Most Popular Girl Names in High-income Group in 1990.....   | 42 |
| Table 5: The Most Common White Girl Names in Low-income Group in<br>1990.....                                  | 43 |
| Table 6: Most Popular Girl Names in 2015 .....   | 44 |
| Table 7: Most Popular Girl Names in 2015 .....   | 44 |
| Table 8: Influence of Variety Offered on Choice Share, Perceptions of<br>Quality, and Category Expertise ..... | 57 |
| Table 9: Beer Groups and Numbers .....   | 60 |
| Table 10: Blind Overall Taste Test – All Participants .....  | 61 |
| Table 11: Blind Taste Test – Specific Characteristics .....  | 61 |
| Table 12: User Loyalty to “Their” Brand (Blind Test).....  | 62 |
| Table 13: Comparison Taste Test – Blind vs. Labeled.....   | 63 |

## LIST OF FIGURES

### FIGURES

Figure 1: An illustration for the Veblen's explanation of human evolution 10

Figure 2: Comparison with and without Trap..... 34

## CHAPTER 1

### INTRODUCTION

Economic studies and empirical experiments based on psychological and sociological facts have promoted new approaches to economics particularly in the last 20 years. The concepts of “human behavior” and “decision systems” have been on the agenda not just for economics but also psychology, sociology and marketing for a long time. Studies on these issues paved the way for new areas such as behavioral economics in the last two decades. Although developments and studies on human behavior are high on the rise, systems that can specifically explain and estimate human behavior have not been fully developed yet.

This situation reveals that paying more attention to economic ideas that are overlooked by the time they are published is inevitable for understanding human behavior more clearly. At this point, Thorstein Veblen’s ideas stated in his book, published in 1899, *The Theory of Leisure Class* may help us to widen our horizon in understanding human behavior. Veblen endeavors to analyze human behavior starting from the early stages of human life till modern times while stating the core forces on decision making mechanisms of individuals.

Decisions may not always be rational because of the domination of the instincts. According to Veblen, “emulation” is one of the strongest and dominating basic instincts that can oppress rationality. According to Veblen people both try to maximize two types of utilities: primary utility, which is the concept that describes the utility of rational and self-interested individuals

through their well-defined preferences; secondary utility, which represents specifically the utility that is dominated by instincts and habits through their instincts and habits. Veblen especially leans on the secondary utility of human and tries to reveal the main driver of it. In addition to that, secondary utility is not always based on a well-defined structure, in fact confronts us as an element that makes harder and even blocks the explanation of the reasons behind human behavior.

According to Veblen, secondary utility comes along with the development of societies and social rules. For human kind who is trying to adapt to the competition conditions that increased with the evolution of the societies, mentioned secondary factors took over primary factors and individuals made choices according to new structure (Veblen, 1994). As societies move towards to a warrior life from a peaceful savage life, some changes occurs in this structure. Competition opportunities and their trigger powers increase and competition become a necessity in the society. Then, once societies harvest a surplus with the technological advancement the link between the property and social status becomes progressively significant. As Veblen states “It becomes indispensable to accumulate, to acquire property, in order to retain one's good name” (Veblen, 1994 p. 29).

In the structure Veblen presented people make the decision for purchasing according to the utility that product and/or service brings to them. According to this, primary utility of a product is productivity and secondary utility is the power of emulation. In primitive societies, secondary utility did not play a very distinctive role as private property has not been fully developed in this era. According to Veblen people both try to maximize their primary utility through their well-defined preferences and maximize their secondary utility through their instincts and habits. Primary utility seems to be the concept that describes the utility of rational and self-interested individuals. The secondary utility represents specifically the utility that is dominated by instincts and habits more than their rational choices:

Goods are produced and consumed as a means to the fuller unfolding of human life, and their utility consists, in the first instance, in their efficiency as means to this end. The end is, in the first instance, the fullness of life of the individual, taken in absolute terms. But the human proclivity to emulation has seized upon the consumption of goods as a means to an invidious comparison, and has thereby invested constable goods with a secondary utility as evidence of relative ability to pay (Veblen, 1994, p. 45).

With the fast movement in the material living standards, for people who want to be upper class and a respectable position in the environment that they live in, secondary utility became more important. This change made an impact to the economic and social life, too. However, societies get larger and more structured while technology advancements enable human to gather data from multiple resources and channels and store them. As a result, human capacity became more and more limited especially in developed societies, with the data getting intense with the technology and limited time in the decision processes. The decision process was not as easy as before for individuals who are defined as selfish and rational because a person who does not have enough education, energy or source of sensation to analyze a situation completely, take his instincts besides to the primary needs, has to make a decision according to the education and experience which he blends with the culture and values of his society (Cialdini, 2001, p. 247).

Peoples' comparison need is getting intense because of the rising technology, compiling data intensity and time pressure. People feel the pressure of making choices under a limited time. Hence, our minds rely on some heuristics and psychological mechanisms because of the cognitive limitations. It can be seen obviously that maximizing the secondary utility is not always straightforward or even possible every time. There are some barriers and obstacles for human mind to reach a conclusion without conducting some mental shortcuts. Main reasons for the need of mental short cuts can be stated as follows: "Problem size, time pressure, completeness of information and information format" (Bettman, 2008, p. 189-202)

In this manner, the main aim of this thesis is to define and analyze the secondary utility presented by Veblen in *The Theory of Leisure Class* (1899) and take it as the genesis of a new type of utility: “hidden utility”. Hidden utility develops secondary utility by adding psychological mechanisms and heuristics in order to understand human behavior and decision systems more clearly. In order to do that the most related heuristics and psychological mechanisms with Veblen’s ideas will be analyzed.

Throughout this work, we will show the differences between the “hidden utility” and the “secondary utility”. We will try to link the secondary utility with the common heuristics and psychological mechanisms that are used in decision making process. In order to reach this goal firstly, primary utility and evolution of secondary utility according to Veblen will be deeply analyzed in the light of the ideas of other economists and philosophers. Primary utility and secondary utility should be deeply analyzed in order to reveal the main differences of these concepts and to comprehend Veblen’s ideas.

Second part of the thesis will lean on the relationship between the secondary utility, heuristics, and psychological mechanisms that are used for maximizing the “hidden utility”. Although there are manifold heuristics and psychological mechanisms in the current literature anchoring & adjustment, obedience to authority, association & signaling, and availability are the ones that will be studied in this thesis.

## CHAPTER 2

### EMERGENCE OF CLASS SOCIETY

Thorstein Veblen's complete analysis of consumption is build up on the relations of individuals and interclass emulation (Bagwell, 2006, p. 351). Veblen recites the duration of savage groups on the axis of barbarism, quasi-peaceful industry era and modern world, and also draws attention to the factors that affect human's transformation process and the daily reflection of these factors on people. As the economy and social structure of the societies evolve overtime Veblen defines this evolution in *Theory of Leisure Class* (1899) from the barbarian culture to modern societies. (Trigg, 2001, p. 100)

In Veblen's work, the evolution of humanity begins with savage groups; savage groups are small societies where there are a few people, there is not an interaction with other groups, hunting and gathering is the main source of living. In this structure, social development is at a primitive level and societies live peacefully where there is almost no interaction. Also because savage groups do not have any needs other than basic needs, there is no property structure. An only competition criterion in these societies is economic utility.

During that primitive phase of social development, when the community is still habitually peaceable, perhaps sedentary, and without a developed system of individual ownership, the efficiency of the individual can be shown chiefly and most consistently in some employment that goes to further the life of the group. (Veblen, 1994, p. 16)

In these societies there is no specialization between individuals; man and woman have the same duties and there is no class distinction.

While moving towards to a warrior life from a peaceful savage life, some changes occurs in this structure. Competition opportunities and their trigger powers increase and competition become a necessity in the society. Firstly, in this transformation there are significant movements in technics and tool usage (Veblen, 1994, p. 30). The interaction between small groups increase with the start of predatory life and this made social progress to rise. In time, with both interaction and harsh changes in the nature, the habitat and the fauna began to require more strength and durability; for example hunting requires bulkiness, agility and cruelty (Veblen, 1994, p. 26). For fitting into this new structure, a new selective adaptation process begins; "Predatory group of hunters it comes to be the able-bodied men's office to fight and hunt. The women do what other work there is to do — other members who are unfit for man's work being for this purpose classed with" (Veblen, 1994, p. 14). On the other hand, woman participates in works that will establish industrial jobs in the future. In this period, class distinction arises because of this work distribution. Woman was seen as lower class and responsible for mostly jobs that requires menial labor; where man wins the upper class status and becomes responsible of jobs like management, warrior, religious duty which were regarded as more honorable. This new distribution of work enabled the transformation from a fixed situation to a routine work schedule and deepened the class distinction by bringing new professions and new specializations.

When societies harvest a surplus with the technological advancement the link between the property and social status becomes progressively significant. As Veblen states in the book "It becomes indispensable to accumulate to acquire property, in order to retain one's good name" (Veblen, 1994, p. 29). The society is structured where ones who own property accounted as honorable and prestigious; a position of esteem whereas ones with no property considered as wicked. Transformation of wealth to social status as prestige becomes increasingly important for the members of the society. The mentioned status and prestige which is derived from the judgments of

members of the society make of an individual's position in society. In order to establish and maintain the status, individuals must keep pace with the social norms.

For people who managed to feed their basic needs by social and technical developments, there are two important elements comes forward; property and leisure time. First example of property begins with powerful men possessing the women in the society and it continues with the possession of objects, therefore property system becomes permanent in the societies. (Veblen, 1994, p. 31-32). Property becomes an important sign of material wealth and is used for showing off the power of the owner. Rise of individual property enhanced individual competition and this comes forward as the basic element in the transformation from communal life to the individualism.

In any community where goods are held in severalty it is necessary, in order to his own peace of mind, that an individual should possess as large a portion of goods as others with whom he is accustomed to class himself; and it is extremely gratifying to possess something more than others (Veblen, 1994, p. 24).

As the individual property gains continuum, its point of view and base of comparison starts to evolve. First level of property was gain that acquired by force and oppression, after that a new organizing level occurs based on the private property where people possess woman and slaves. The crowd becomes a self-sufficient group in time and at this point properties become more an evidence of power over the other members of the party than an evidence of a successful predatory. Therefore basic comparison becomes the comparison between the one who has the property and the other members of the group (Veblen, 1994, p. 34)

With this developing competition, separation between social classes increase, some professions are linked with lower class in the society and some are possessed from upper class and is taken as more honorable and

respectable. This differentiation creates the “Leisure” class in the society. This class consists of people who avoid menial labor work and are used to forms of honorable objects for a long time. With the interaction between societies and advancement in the technology, the struggle for living and satisfying basic needs has ended in the quasi-peaceful and peaceful industrial era. In every developing society;

Industrial efficiency is presently carried to such a pitch as to afford something appreciably more than a bare livelihood to those engaged in the industrial process. It has not been unusual for economic theory to speak of the further struggle for wealth on this new industrial basis as a competition for an increase of the comforts of life, — primarily for an increase of the physical comforts which the consumption of goods affords. (Veblen, 1994, p. 19).

These developments create the leisure time concept for the people who satisfy their basic needs and who belong to the upper social classes. “Time is consumed non-productively (1) from a sense of the unworthiness of productive work, and (2) as an evidence of pecuniary ability to afford a life of idleness.” (Veblen, 1994, p. 33)

Their ulterior, economic ground is to be sought in the honorific character of that leisure or non-productive employment of time and effort without which good manners are not acquired. The knowledge and habit of good form come only by long-continued use. Refined tastes, manners, habits of life are a useful evidence of gentility, because good breeding requires time, application and expense, and can therefore not be compassed by those whose time and energy are taken up with work. (Veblen, 1994, p. 36)

According to Veblen, the most efficient way to show material power is conspicuous leisure and conspicuous consumption. (Veblen, 1994, p. 67) With the rise of property and leisure time, some social classes buy product and services not for living but to show themselves economically and socially superior. For two methods, conspicuous consumption and conspicuous leisure remain valid for the lower socio economic groups because even the

most miserable part of the society do not prefer to give up conspicuous consumption at all. For example, in upper social classes conspicuous consumption is done by both the person and that person's servant, slave, spouse and kids; in a lower class this consumption is done by only the person, spouse and the kids, so the servant gets out of the system; in the lowest class this consumption is done only by the spouse (Veblen, 1994, p. 40-44).

Conspicuous leisure and conspicuous consumption is served for the same purpose in the first stages of social progress. However, social circle of individuals start to enlarge with the progress in communication and technological developments and decrease of the communication costs. At this point, consumption becomes more a reputation tool than leisure.

Under the simple test of effectiveness for advertising, we should expect to find leisure and the conspicuous consumption of goods dividing the field of pecuniary emulation pretty evenly between them at the outset. Leisure might then be expected gradually to yield ground and tend to obsolescence as the economic development goes forward, and the community increases in size; while the conspicuous consumption of goods should gradually gain in importance, both absolutely and relatively, until it had absorbed all the available product, leaving nothing over beyond a bare livelihood. (Veblen, 1994, p. 62)

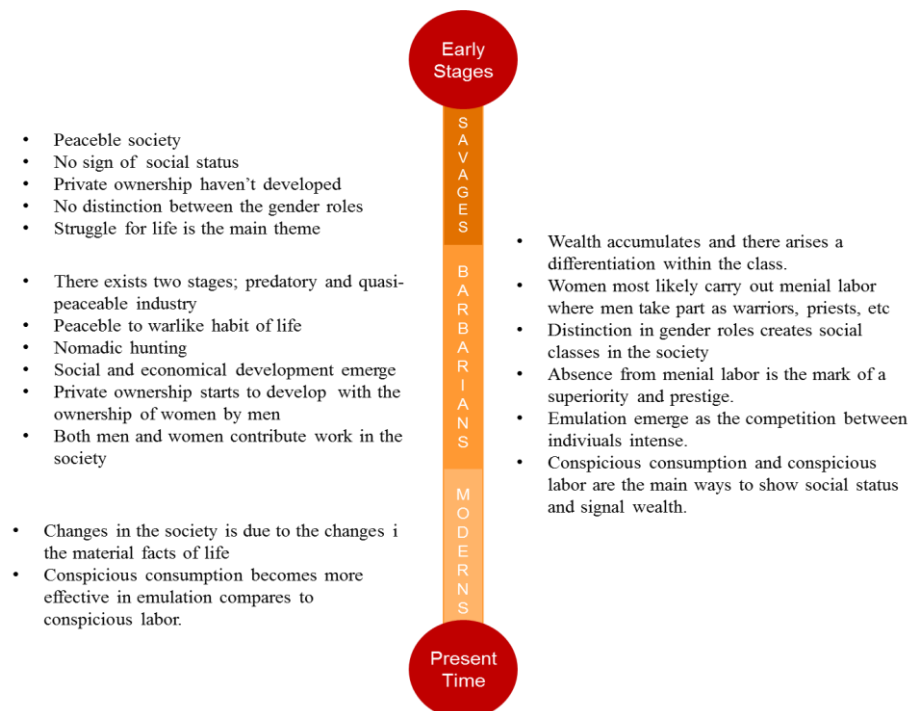


Figure 1: An illustration for the Veblen's explanation of human evolution

In *Theory of Leisure Class* (1899), what Veblen tries to emphasize is that individuals find themselves in an everlasting competition cycle in every social class. The basic instinct, emulation, becomes so intense that it has the power to override every other economic and non-economic urge. Individuals who live in a class society feel obliged to satisfy their emulation instinct and keep pace with their social groups. In order to do so, consumption, especially conspicuously, becomes an integral part of living. The ones who want to maximize their utility have to satisfy his/her emulation feeling while conspicuously consuming. A deep analysis should be done on utility concept for a clearer understanding on Veblen's ideas.

## CHAPTER 3

### UTILITY CONCEPT

#### 3.1. Primary Utility

Primary utility concentrates on the well-defined choices and efficient allocation of resources rather than investigating the reasons how people choose and how markets work (Glimcher, 2009, p. 2). It can be inferred that 'utility' is an important concept for neoclassical economy. In fact a broad view on utility is given by utilitarian philosophers such as Jeremy Bentham and John Stuart Mill. The utilitarian viewpoint especially boosted in 19th century had an important impact during that period. Jeremy Bentham (1748-1832) made an analysis to point out the values and facts that give pleasure and pain to people in a more rational framework in his work *Introduction to the Principles of Morals and Legislation* published in 1789 and defended that he could make some quantitative conclusions by analyzing the human experiences with some criteria. According to this view, people shall evaluate the facts which give pleasure and pain according to the following criteria: "intensity, duration, certainty/uncertainty, propinquity or remoteness" (Read, 2004, p. 2). Bentham, who is a law and society reformer, developed a way that brings the most pleasure by offering a guiding principle. Bentham offered a rule for each act to determine the act that brings the highest pleasure thus the moral truthfulness. Summing up the potential pleasure and pain that an individual can experience one may determine the act that will bring balance to pleasure and pain. For all the people who will be affected by this act, one should conduct the same operation and find the balancing for all of these people. After that one should conduct all the operations for the second act. Finally one may choose the act that has the highest degree.

Actually, Bentham's calculation is the first example of modern reasoning. (Gigenzer, 2009, p. 180)

Roughly, Bentham proposed that human aims to desire the things that will maximize their utility. According to that idea, things bringing pleasure are classified as positive and things bringing pain are classified as negative. "Given the assumption of self-interest, economic theories of behavior were to be deduced from psychological laws about human wants, which in turn were understood in terms of the pursuit of pleasure and the avoidance of pain." (Bruni; 2007, p. 150)

In order to analyze utility concept in general, rational choice theory should be digested which is related with the well-defined preferences and self-interested individuals. According to neoclassical economy rational choices must fulfill some requirements of consistency and rational agent is described by the following features (Kapeller, 2012, p. 40)

- 1) Completeness – Agent is fully informed about the possible choices
- 2) Ordinality – Agent is able to rank of the available choices as 'better' or 'worse'
- 3) Consistency – Agent's ranking is consistent based on transitive preference ordering
- 4) Optimization – Agent is able to optimize his/her expected returns/utility based on his/her rankings.

This approach called rational choice theory has been utilized often by economists to predict consumer decisions. Agent's objective function is to maximize his/her utility within the given constraints while satisfying the mentioned features above. As stated in this theory any option in the choice set have its own utility or abstract value that only depend on the option.

The essential idea behind the discovered preference hypothesis is that rational choice theory is descriptive of

the behavior of economic agents who, through experience and deliberation, have learned to act in accordance with their underlying preferences; deviations from that theory are interpreted as short-lived errors. In addition to that, decision maker has the capability and talent to process which option to choose to maximize his or her utility and selects accordingly (Bruni, 2007, p. 148)

Adam Smith argues that economic behavior is mainly motivated by individual's self-interest as he states "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities, but of their advantages." (Smith, 2009, p. 26) According to this idea, people are rational creatures who make choices in line with their self-interest.

In the early 1930's economists like Pareto, Samuelson, Arrow, and Debreu commence to examine the mathematical architecture of consumer behavior through consumer choice. These mentioned researchers began to explore "what mathematical structure of choices might result from simple, more 'primitive', assumptions on preferences" (Glimcher, 2009, p. 2) rather than constructing models that include some insights on psychological grounds.

Economic literature which developed in historical process continued to rise on two basic assumptions as "rational expectations" and "efficient markets". (Guerrien, 2011, p. 22) The mathematical models are formed based on the representative agent who is defined as a creature that always makes choices in their life cycle.

Thus he (or perhaps even she) becomes Sovereign in the neoclassical picture of the function of the capitalist society. The immense investment of resources in productive facilities and infrastructure is simply the most convenient device by which the Rational Consumer can transfer her wealth from the present to the future (Foley, 2004, p. 84)

From the beginning of the Neoclassical economics, the mathematical models in economics stand on the theories that aim to broaden the power and comprehensiveness of rationality and self-interest. For instance, Bernoulli developed the initial official explanation of the consumer decision-making (Richarme, 2005, p. 2). The proposed theory called, utility theory, states that humans/consumers make choices based on the expected outcome of their choices. According to this theory, choice makers are considered as rational players who have the ability to evaluate the probabilistic outcomes of ambiguous choices and prefer the one that maximizes their well-being. Suggested utility theories have been developed especially with the contributions of Von Neumann and Morgenstern, and thanks to axioms they formed, “Expected Utility Theory” has become a standard device of the economy theory in economy literature. Expected Utility Theory (EUT) which states that people simply choose the option which gives them the highest expected utility, where expected utility is the utility of an outcome weighted by the probability that the outcome will be realized. (O’Hearn, 2010, p.5)

### **3.2. Secondary Utility**

Thorstein Veblen’s, *Theory of Leisure Class* (1899) appears as a strong critique of the neoclassical economic theories even today. According to Veblen, people do not always construct preferences, in some cases they already have well defined and stable preferences that rational choice theory can be applied. In line with this he does not totally underestimate the significance of rationality.

In contrast to the individual’s static maximization of utility according to exogenous preferences as posited by neo classical approach, Veblen develops an evolutionary framework in which preferences are determined socially in relation to the positions of individuals in the social hierarchy and lifestyles. (Trigg, 2001, p. 99)

Veblen points out that there are some situational factors like instincts, memories, experiences that lead humans how to behave. Veblen states that there are two important elements that affect choice making; *primary utility* and *secondary utility*. According to the structure established by Veblen, there is a secondary utility from an object's use that comes from the emulation next to the primary utility that comes from the object's use only. It can be stated that primary utility is an explicit utility of consumption to appreciate life and well-being on the whole, whereas, consumption of a goods acts as a proof or confirmation of the human's relative ability to pay which constitutes the secondary utility.

Goods are produced and consumed as a means to the fuller unfolding of human life; and their utility consists, in the first instance, in their efficiency as means to this end. The end is, in the first instance, the fullness of life of the individual, taken in absolute terms. But the human proclivity to emulation has seized upon the consumption of goods as a means to an invidious comparison, and has thereby invested constable goods with a secondary utility as evidence of relative ability to pay (Veblen, 1994, p. 103)

According to Veblen, social structure which consists of small groups in the savage society is coming to a point which is more integrated with the technological developments. People adapt to these transformations that happens in the social and cultural structure with instincts, experiences, memories and learning skills and live attached to the traditions, belief and idea forms which evolves in this structure. According to Veblen's structure, there are two basic factors that affect people's decision processes. First of these factors is selfish and rational human's utility maximization which is also the basic of the classical economy. Humanity adopted behaviors according to his own utility maximization since the ancient times other factors that affect decision processes are; learning by instincts and habits that consolidate from experience processes and adapt directly to his own societies truths. For human kind who is trying to adapt to the competition conditions that increased with the evolution of the societies, mentioned secondary factors

took over and individuals made choices according to these norms that created by the society.

At this point, it can be seen that “economic interest” which is the base of the neo classical economy is not completely rejected by Veblen and also is one of the two important factors in the decision processes. However, Veblen declares that primary utility which is shaped according to well-defined preferences is not the only factor that affects decision processes and therefore it cannot be thought independently from factors that affect secondary utility. “In the organic complex of habits of thought which make up the substance of an individual’s conscious life the economic interest does not lie isolated and distinct from all other interests.” (Veblen, 1994, p. 78) “Non-economic” factors which are defined as “other interest” by Veblen are the elements that compose the base of secondary utility. According to Veblen, the mentioned factors are able to take over economic interests and become more guiding for choices. Even though consumers try hard to make rational decisions, economic interests are overshadowed by non-economic interests; therefore becomes an obstacle for people to make rational choices. “There is a point of view, indeed, from which the economic interest is of weight only as being ancillary to these higher, non-economic interests.” (Veblen, 1994, p. 195).

Foundations of the factors that Veblen defined as non-economic interest are instincts and habits. According to Veblen, people are affected by habits and instincts in the decision processes, in every age of the human history, from savage groups to modern societies.. Emulation is one of the most important instinct that guide people in the decision processes for Veblen. “With the exception of the instinct of self-preservation, the propensity for emulation is probably the strongest and most alert and persistent of the economic motives proper.” (Veblen, 1994, p. 74) In fact, what people pursue to achieve while maximizing their secondary utility is emulation. This emotion comes to such an important point that all the other gains can be ignored. Furthermore,

because secondary utility is generally affected by instincts, it does not always use conscious behavior as a base. As Mill also stated in *Utilitarianism* "...sometimes [decision] is done unconsciously, the consciousness coming only after the action: at other times with conscious volition" (Mill, 2001, p. 40) At this point of view, it can be said that primary utility is maximized with conscious mind and secondary utility is maximized with unconscious mind. Because people try to maximize their secondary utility without consciousness, secondary utility can be referred as "hidden utility". It is very important for both individuals who create the demand and for companies who creates the supply, to understand the differences between these two utilities in today's society where people are addressed as consumers. Even though primary utility consists of well-defined preferences and rational choices; it is easier to manipulate decision processes in some occasions where hidden utility takes over primary utility under the guidance of unconscious mind as Veblen also indicated.

In the structure Veblen presented that people make the decision of purchase according to the utility that product and/or service brings to them. According to this, primary utility of a product is productivity and secondary utility is the power of emulation. In primitive societies, secondary utility did not play a very distinctive role as private property has not been fully developed in this era. In periods where technology develops slowly and the capacity to process the knowledge is not enough, especially instincts and habits that provoke competition stay in the background in regards to rationality. This leads to a definition that complies with the homo-economicus. However big progress in technology made communication easier, so interaction between societies increased, therefore instincts that people always had (especially competition) started to show itself.

With the fast movement in the material living standards, for people who want to be upper class and have a respectable position in the environment that they live in, secondary utility became more important. This change made an

impact to the economic and social life, too. Human capacity became more and more limited especially in developed societies, with the data getting intense with the technology and limited time in the decision processes,. The decision process was not as easy as before for individuals who are defined as selfish and rational because a person who does not have enough education, energy or source of sensation to analyze a situation completely, take his instincts besides to the primary needs, has to make a decision according to the education and experience which he blends with the culture and values of his society. (Cialdini, 2001, p. 247)

What Veblen is trying to emphasize in his *The Theory of Leisure Class* (1899) is that there is no well-defined preferences in consumers' hidden utilities. The beliefs, ideas and taboos in the society they live in have a very important role in their decisions and because of that they do not always make conscious or rational choices. People want to make rational decisions, but they cannot always do so. (Jones, 298) So, why do not or cannot people always make rational or conscious decisions? There are both internal and external reasons that play a role here. Internal reasons as Veblen pointed out are instincts and habits.

Other economists and philosophers also mention the irrational behaviors in their works. For instance; John Stuart Mill (1806-1873) preferred to structure utility more qualitative way rather than quantitative like Bentham. Mill make a distinction between different kind of pleasures: inferior and superior and writes that "It is better to be a human being dissatisfied than a pig satisfied; better to be Socrates dissatisfied than a fool satisfied. And if the fool, or the pig, is of a different opinion, it is because they only know their own side of the question." (Mill, 1843, p. 586–589). Also according to Mill, individuals do not always aim to maximize their pleasure and minimize their pain as Bentham suggest, but rather they do variety of actions because of habits. "...any other person whose purposes are fixed, carries out his purposes without any

thought of the pleasure he has in contemplating them, or expects to derive from their fulfillment” (Mill, 2001, p. 36)

Actually, Smith also adds a point on this subject as he defines human behavior in numerous ways and levels and rational conduct is just one of them and according to him free economic behavior does not necessarily comes with a wholly desirable and harmonious social order (Grampp, 1948, p. 317). It is seen that in his work named *The Theory of Moral Sentiment* (1759) which was published 17 years before the *Wealth of Nations*, human behaviors are effected by two different factors which are opposite to each other named ‘passions’ and ‘impartial spectator’. ‘Passions’ consist of fear; anger; actions coming from instincts and actions performed without thinking and urges like hunger, sexual desire or sensual feelings like pain. Passions can be restrained by the impartial spectator – “a moral hector who, looking over the shoulder of the economic man, scrutinizes every move he makes” (Grampp, 1948, p. 318). However, if the passions are sufficiently intense then they can over-ride the impartial spectator. Briefly, Adam Smith suggests that people go after their economic interest rationally, but at the same time, they are guided by non-economic urges.

Veblen both includes the evolution of emulation which lies underneath of hidden utility and emphasizes how these outer factors defined above are shaped as social groups evolved into a more integrated structure while explaining the evolution process of humanity. For this reason, it is important to inspect the human's evolution and formation process to understand today's people decision process and shine light on its evolution.

### **3.3. Exploration of the Secondary Utility**

Economic studies and empirical experiments based on psychological and sociological facts have promoted new approaches to neoclassical economics, particularly in the last 20 years. The main reason behind the increase in the number of studies carried out is the inadequacy of neo

classical economic theories for explaining economic facts and human behaviors. Mainly, there has been an expanding attempt to point out the weaknesses of neoclassical economics in explaining the human behavior and to propose new theoretical and practical approaches by the group of researchers on the analyses of human economic behavior. These groups of researchers, called “behavioral economists” denote that applying psychological thoughts and premises into neoclassical economics will pave the way for understanding the human behavior deeply. Behavioral economists endeavor to analyze the limits of people in rational calculation, willpower and personal interests, by taking such restrictions into consideration, and to explain it through data analyses, experimental studies and mathematical practices, in order to achieve that purpose (Glimcher, 2009, p. 4).

It has been proved that people do not always make analysis of benefit-cost and that they cannot exhibit rational behaviors due to the insufficient information in most situation and they make systematic mistakes. Representative agent started not to reflect the truths of the mass he/she represent and, therefore, he/she started to be criticized. We see this break point as the most important factor which forms basis in appearance of alternatives that explain human behaviors and decision making methods. According to Bettman “Due to limited processing capacity, consumers often do not have well-defined existing preferences, but construct them using a variety of strategies contingent to task demands” (Bettman, 2008, p.187) In addition, Bettman also points out that preferences are constructive; most of the time they are not well-defined; instead they are constructed when needed. According to this, preferences are studied with the available information and situation which implies that humans actually learn during the course of decision making.

Meanwhile, in 1953, Maurice Allais offered a decision problem which is known as, Allais Paradox today, which contradicted with independence

axiom of expected utility theory. In addition Daniel Ellsberg (1961) suggested that “ambiguity” / “weight of evidence” may influence choices which violate one of the key axioms of the expected utility theory (Galeotti, 2010, p. 5) The well-known paradoxes by Allais and Ellsberg raised the voices that simple axioms of preference in the expected utility theory were fallacious. These developments in the economic literature lead to an observation that neoclassical models worked only under some assumptions and limitations.

Different theories generally suggest that technological development causes changes in individual and social structures and this situation affects in decision making process of people. According to Foley,

There does not seem to be any strong reason to think that Paleolithic human societies, where presumably our DNA was shaped to meet the challenges of the present day, faced the evolutionary pressures particularly conducive to the emergence of the Rational Pursuit of Material Gain which is the bedrock of the Rational Economic Agent (Foley, 2009, p. 4)

Daniel Kahneman and Amos Tversky have contributed to economy literature with the article “Prospect Theory: An Analysis of Decision under Risk” published in 1979 with a different theory which explains human behavior and decision making mechanism. While Kahneman and Tversky did not totally refuse the Expected Utility Theory in the article they published, they mentioned different choosing processes drawing attention to that human behaviors go beyond the utility theory’s axiom especially under circumstances that risk factor is at the forefront. In this study of Kahneman and Tversky, uncertainty factor which was ignored in classic economy theories started to have place in discussions again. Expectation theory put the decision making under uncertainty in a more realistic basis by handling the, emotional, in other words, -irrational- features of human behaviors. In the performed studies, human behaviors show glaring and highly replicable deviations from rationality. As the result of studies which suggested that this

incoherence in human behaviors was affected by many different factors apart from uncertainty, studies in the field of human behaviors were accelerated. The difficulty in decision making processes are as follows: “Uncertainty, causal complexity, confounds of measurability and importance, preference ambiguity, interpersonal trade-offs, and strategic interaction”. (March, 2006, p. 203-209)

There has been a tremendous increase in explaining the human behaviors with behavioral economy theories in this period. In the mid-1950s, Herbert Simon (1916-2001) proposed an alternative model called “Satisficing”, where rather than evaluating all possible outcomes, people would evaluate a limited number of options until arriving at a solution that was “good enough”. The mentioned theory argues that “consumers got approximately where they wanted to go and then stopped the decision-making process” (Richarme; 2005, p. 4). While this theory improved the classical utility theory, it still left room for improvement in predicting human behavior. In post-war period, Bounded-Rationality is the most important contribution suggested by Herbert Simon to the economy literature. Bounded-Rationality is a discipline which established due to the insufficiency of comprehensive rationality defined by classic economy in explaining the decision making processes. According to the classic economy theories, people chose the most beneficial good or service among various alternatives and they aimed to maximize the net benefit that would come from this good or service. As mentioned above, it adds risk and uncertainty factors to EUT into this choosing mechanism by associating with the probabilities. The aim in these theories is to maximize the expected utility. In this study, two important factors draw attention. First of them is that behaviors are determined according to the incentives faced by decision-maker. Second of them is that the reactions to these incentives are instant, which means, utility maximizer does not have a learning curve. (Jones, 2009, p. 299). Bounded-rationality grounds on those actors as comprehensive rationality are target-oriented but it considers that there are cognitive limits in decision-making processes. Simon states his main aim as

“A comparative examination of the models of adaptive behavior employed in psychology (e.g., learning theories), and of the models of rational behavior employed in economics, shows that in almost all respects the latter postulate a much greater complexity in the choice mechanisms, and a much larger capacity in the organism for obtaining information and performing computations, than do the former. Evidently, organisms adapt well enough to ‘satisfice’; they do not, in general, ‘optimize.’” (Simon, 1999; , p. 99)

Bounded rationality points out that comprehensive rationality requires unlimited cognitive capabilities that man does not have. People don’t know, think or compute all mathematical problems immediately during their decision making processes. “Humans’ cognitive capabilities are quite limited. For this reason alone, the decision behavior of human beings cannot conform to the ideal of full rationality” (Selten, 1999, p. 5). Increased data density with technology creates more complex and unclear world order. In this changing world order, people are forced to make some decisions in a limited source and time. But, classic economy theories form a structure with perfect information and unlimited time assumption by ignoring these limitations which contradicts with the real-life examples.

For the time being, neuroeconomics is emerged recent years that “could be thought of as algorithms regarding how information was processed, and the choices that resulted from that information-processing” (Glimcher, 2008, p. 6). Many researchers are currently working in that area in order to understand the reasons behind individuals’ behavior. Although, human instincts, desires, wants and habits are not a fast changing forms, the sciences that aim to explain those structures has ever-learning forms which enable them to develop better explanations of today’s societies.

It can be seen obviously that maximizing the secondary utility is not always straightforward or even possible every time. There are some barriers and obstacles for human mind to reach a conclusion. At this point synthesis of

two different mindsets is substantial to find out structures lie behind human behavior and decision-making systems more profoundly and to ensure predictability of them. Therefore, this thesis aims to associate Veblen's emulation and conspicuous consumption concept with the decision mechanisms that especially behavioral economics and psychology lean on. In order to achieve this goal, a new concept, hidden utility, has been established which takes the secondary utility as the genesis. Hidden utility will be elaborated in the following stages of the thesis.

## CHAPTER 4

### HIDDEN UTILITY

In *Theory of Leisure Class* (1899), Veblen's main aim is to point out the interclass emulation of individuals and its resulting habits. According to him, as people satisfy their basic needs and technological advancements create a surplus in the economy, new concepts like private property, conspicuous consumption and leisure emerge in social classes. This situation calls alteration in social rules and structures; work distinction between men and women creates gender distinction in the society. At the latter stages gender distinction evolves and broadens, therefore social classes come in to existence. As the individual property gains importance in each and every ladder of social classes, competition settles in the core of individuals' relationships.

According to Veblen, the most efficient way to show material power is conspicuous leisure and conspicuous consumption. (Veblen, 1994, p. 67) With the rise of property and leisure time, some social classes buy product and services not for living but to show themselves economically and socially superior. As emulation becomes the most important instinct for human, it should be satisfied for maximizing one's utility. According to Veblen, conspicuous consumption is the most effective way to satisfy emulation instinct.

To sum up, Veblen emphasizes that social and economic classes present in modern cultures which demand basic changes in social structures. Due to the mentioned social and economic classes competition between interclass arises which triggers the most important instinct, emulation and this results with conspicuous consumption.

When today's societies are analyzed, the presence of Veblen's ideas and claims can be clearly observed. However, the need for development of Veblen's ideas is inevitable to reveal new structures and theories in this fast evolving and constantly changing social structures with the technological advancements. At this point, examination of tools and mechanisms that have been revealed with the breathtaking studies by psychology and behavioral economics plays an important role for underlying causes of human behavior. Although Veblen explains the consequences of social and economic classes by emulation and conspicuous consumption he does not analyze the factors and mechanisms in decision making when individuals consume. Although Veblen's concept, secondary utility, forms a frame for human behavior, it fails to satisfy in explaining decision processes of human. Therefore, hidden utility concept takes secondary utility as the genesis and develops it by adding psychological mechanisms and heuristics in order to understand human behavior and decision systems more clearly. In order to do that the most related heuristics and psychological mechanisms with Veblen's ideas will be analyzed.

#### **4.1. The Bond Between Veblen and Psychological Mechanisms & Heuristics**

According to Veblen internal and external factors are part of the human history since the savage groups. However in societies where social structure has not yet developed, these factors stay in the background. For example in savage period where knowledge intensity is limited, human's only purpose is to survive and at this point there is not a competition structure yet. But in today's societies both knowledge and its intensity increased and industrialization brought prosperity that enabled competition feelings to evolve and become more apparent.

People made some mental short-cuts on the choices that are made by the secondary utilities; as choice decision processes get harder with the increase in the amount of information, decrease in the available time for processing the choices, increase in the contention between attributes and increase in the

chaotic structure of information format. In such situations, it became harder to structure well-defined preferences.

Integration of the structure that economy literature and Veblen's reasons of consumer's decision mechanisms is useful to define consumer behaviors more effectively. According to this integrated structure, consumers have limitations on their capacity for altering the given information. "Such limitations include limited working memory and limited computational skills" (Bettman, 2008, p. 187). Lack of necessary computational skills of human beings paves the way for usage of instincts and habits in decision making process. Instincts that Veblen defined rely in the same axis since the beginning of the humanity and present the feelings of *emulation* and *competition*. These instincts reflect on peoples' behavior and become stronger in more integrated and developed societies. From quasi peaceful culture era to modern human being, individuals who grew with these instincts; behave correspondingly to the societies' competition elements. These competition elements consist of prestige, social status which occurs according to class distinctions and consumption which is very important sign of reputation. These elements became more important in the beginning of human development process, where especially data is not enough or ambiguous, or there are very big data stacks that cannot be analyzed, and also situations where there is a time pressure. With ability to analyze getting weaker in regards to technology and the increasing competition, these secondary needs are taking place of well-defined preferences in time. As people try to make judgments more quickly and efficiently, they shape some psychological mechanisms and heuristics while satisfying their main instinct, emulation.

In such situations, rather than starting from scratch, people use mental shortcuts that make decisions easier, allowing consumer to be more time efficient in their judgments. The mental shortcuts/cues/constructive preferences will

be deeply analyzed which paves the way for conspicuous consumption and emulation.

### **Need for mental short-cuts**

Elements that make an impact to the decision process are these: (Bettman, 2008, p. 189-202)

- **Problem size**

As the problem size gets larger, the amount of information to be processed increases which complicate the decision making

- **Time Pressure**

As beat of life accelerates, decision makers feel the pressure of ticking time

- **Completeness of Information**

Decision makers prefer to have complete information about the goods and services they consider however; it is not always the case. Under these circumstances, consumers are not capable of analyzing the good or service in all its parts which may lead to a “good enough” decision not the “best”

- **Information format**

The organization and the structure of the information exhibit a major impact on consumer's choices. Some forms of information can make the processing clear and less effortful where as some forms can make it harder. Under the influence of these mentioned internal and external factors, peoples' decision mechanisms are affected involuntarily.

### **4.2. Emulation**

Peoples' comparison need is getting intense because of the rising technology, compiling data intensity and time pressure. People feel the pressure of making choices under a limited time. Hence, our minds rely on some heuristics and psychological behaviors because of the cognitive

limitations. Although there are manifold heuristics and psychological behaviors in the current literature the heuristics; anchoring & adjustment, obedience to authority, association & signaling, and availability are the ones that will be studied. The main reason of choosing these mentioned heuristics and psychological behaviors is because they are the most relevant ones that enable us to understand and explain Veblen's ideas on emulation and conspicuous consumption. At this point firstly emulation will be analyzed as social and pecuniary perspectives. After that related mental short cuts will be explained, experiments and studies and will be presented.

As mentioned earlier, according to Veblen, emulation plays a very important role in the decision mechanisms and stands as the base of the hidden utilities. According to this what people aim to maximize in their hidden utility objective functions is emulation. Veblen in *The Theory of Leisure Class* (1899) claims that emulation happens in two ways; social emulation where people show off their knowledge, etiquette and social status with the competition given in their life style, and pecuniary emulation where people show off their prestige and their upper status in the society with a more material based way.

People, when proving their superior places to their social and economic environment and getting their approval, are trying to have or consume the concepts that are accepted as status and prestige sign by the society they belong. Consequently, people have to compare the products or services and make a choice between the ones that are thought as a status or prestige sign. The reason behind the need for continuous comparison is that humans have no scalar valuation that can determine a product's, service's or a concept's value.

Therefore, humans scale and determine the value of the concepts by using the evaluations that are accepted by his/her environment and the society s/he lives in. Rising technological activities makes societies develop and

communicate faster and these mentioned value judgments began to appear every social and economic class. These criteria settle into the social structure, becomes domestic and stereotyped, and affect both the current and the future periods. Dan Ariely in his book “Predictably Irrational” summarizes this situation. We do not have an internal value scale that tells us the cost of a thing.

On the contrary, we focus on the relative advantage it has over other things and estimate its value according to that. (Ariely, 2008, p. 28) Most of the people do not know what they want until they see it in a context. We do not know what kind of race bike until we see a champion on the French tour cycling a certain kind of bike. We do not know what kind of sound system we want until we hear sounds from a better sound system. We even do not know what we want to do with our lives until we come across a relative or a friend that does exactly what we think; shortly everything is relative. (Ariely, 2008, p. 29) Briefly stated, people evaluate everything in their environment with a relation to others and with comparison and prefer to decide that way.

This “continuous comparison” phenomenon is an instinct, beyond a necessity like Veblen stated. This instinct that based on competition makes people compare themselves with social and economic class they belong.

As a matter of selective necessity, man is an agent. He is, in his own apprehension, a center of unfolding impulsive activity —“teleological” activity.... This aptitude or propensity may be called the instinct of workmanship. Wherever the circumstances or traditions of life lead to a habitual comparison of one person with another ... works out in an emulative or invidious comparison of persons (Veblen, 1994, p. 12-13)

This comparison creates some competition criteria in the society in time and these fixed criteria become a guide for all the social classes. Competition element becomes the main element that affects the hidden utility in peoples'

decision mechanisms. For this reason, people are inclined to compare themselves not just with their social and economic classes but also upper classes as well. People tend to compare their wage, their lifestyle, their health status and so on. This comparison and emulation, without any doubt, is highly significant for individuals' well-being. Robert Frank once said

without taking people's concerns about relative standing into account, economists have been led to adopt a variety of theories that seem either utterly implausible as descriptions of human behavior or sharply at variance with observed facts (Falk, 2004, p. 38)

People evaluate themselves with the comparison they conduct and become pleased if they are in a better position than the social and economic environment they live in. For instance, Richard Easterlin in his well-known article on happiness – income paradox states that there is no relationship between the society's economic level and one's happiness level. In other words, individual's average level of happiness does not increase with the development in GDP. Research conducted on this hypothesis revealed that real income growth in the countries didn't contribute a rise in the happiness levels of individuals. (Easterlin, 1995, p. 114). Easterlin states that "Today, as in the past, within a country at a given time those with higher incomes are, on average, happier. However, raising the incomes of all does not increase the happiness of all. This is because the material norms on which judgments of well-being are based increase in the same proportion as the actual income of the society. (Easterlin, 1995, p. 35)" In short, the Joneses whom one had to keep up, were not the neighbors but the rich; their level of living became the never-attainable objective in a consumption arms race among the less well-to-do (Bowles, 2005, p. 396)

This relational comparison that people make is not limited to individuals' social and economic environment. People also compare the supplied products and services and make choices accordingly. While making these choices, people who confront some difficulties about analyzing the data

under the pressure of time, created some short cuts. Today these heuristics and psychological behaviors that have a big impact on explaining human behavior speeds up the consumers' decision mechanisms. At this point the heuristic that will be analyzed is anchoring and adjustment.

#### **4.3. Anchoring & Adjustment**

An experiment that Ariely conducted revealed that people can make comparisons in any condition. These experiments suggested that people take a reference point (anchor) in the decision process and make an evaluation according to this reference point (adjustment). Marketing theory can manipulate people's decision mechanisms through this situation. In this experiment conducted by Dan Ariely, it is tried to explain how and in what condition people use relativity. In the experiment, where 100 students from MIT Sloan Business School participated, they were asked to evaluate the subscription choices that Economist Magazine offers and which subscription choice they would like to choose. The choices that were offered to the participants about the magazine subscription were;

- 1) Only internet subscription for 59 dollars
- 2) Only magazine subscription for 125 dollars
- 3) Both internet and magazine subscription for 125 dollars

Answers participants gave to the question;

- 1) Only internet subscription for 59 dollars – 16 students
- 2) Only magazine subscription for 125 dollars – 0 student
- 3) Both internet and magazine subscription for 125 dollars – 84 students

It can be seen that the choice that supply only magazine subscription for 125 dollars is put there as a trap. Because there may not be certain judgment between only internet subscription for 59 dollars and both internet and magazine subscription for 125 dollars; it is obvious that both internet and

magazine subscription is a better purchase choice than the only magazine subscription for 125 dollars. Logically speaking, for the 3rd option that has a mixed package, it can be deducted that internet subscription is free.

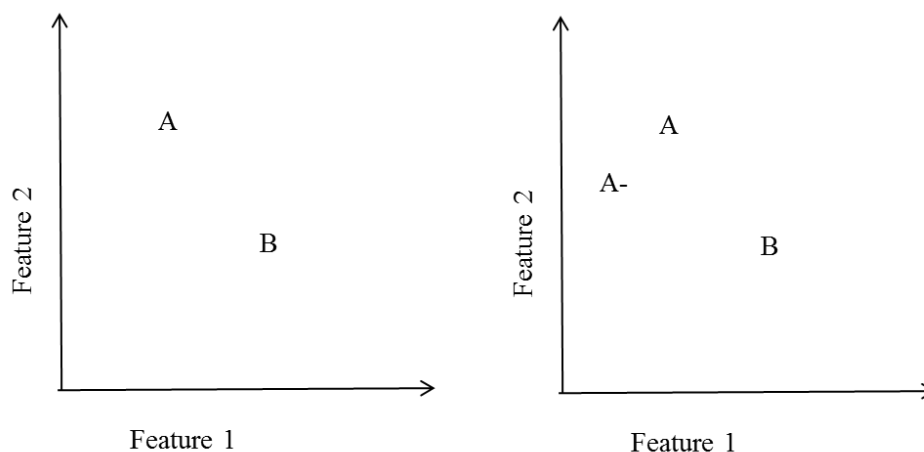
Same experiment gave the results below, when removing the second option from the choices:

1. Only internet subscription for 59 dollars – 68 students
2. Both internet and magazine subscription for 125 dollars - 32 students

Absence of the trap option enabled 32 people for magazine and internet; 68 people for internet to make different choices.

The result that came up from the experiment is outstanding; when there is a trap option in the available choice set, most of the participant did not only eliminate the trap option but also eliminate the first option that offers only internet subscription for 59 dollars.

Let's look at the below graphic to analyze how marketing theory manipulate anchoring and adjustment that people developed as a short-cut, more efficiently.



**Figure 2:** Comparison with and without Trap

Source: Ariely, 2008, p. 46

In the example, we see two samples that have a better feature than one another. (A) option is better at feature 1 -qualification- and (B) option is better at feature 2 -beauty-. It is not easy to make a choice between these two features because these characteristics are completely different than each other, just like internet subscription for 59 dollars and internet and magazine subscription for 125 dollars. When we add another option that we define as (A-) (such as only magazine subscription for 125 dollars), it can be easily deducted to the conclusion that this option is obviously worse than (A). Moreover, this option being very similar to the (A) option makes the comparison easier and shows that not only (A) is better than (A-) but also is better than (B), too.

Essence of the matter, putting (A-) into the equation makes a basic relative comparison to be made with the (A), as a result it makes (A) looks better from not only (A-) but also all the other choices. For this reason, even though no one chooses option (A-) putting it into the group makes people most likely to choose (A) in the end. (Ariely, 2008, p. 34-35)

One way to compare the relative values is anchoring and-adjustment heuristic which is presented by Tversky and Kahneman (1974). Tversky and

Kahneman claimed that people can make different comments with the value that they use as an anchor, with different experiments. For instance in an experiment, a Wheel-of-fortune was spun, and, participants were asked if the number of Africans live in America is greater or smaller. After that they were asked to guess a number. Even though participants know that the number that is generated by the Wheel is completely random, their guesses were relatively close to that number. This example shows that people cannot make rational judgments in uncertain situations.(Tversky, 1974, p. 124–127.) DrazenPrelec, George Loewenstein and Dan Ariely made some studies to show the irrationality and anchoring effect in the people's decision mechanisms. In these experiments what they were aiming was to inspect how people assess the prices of products and services under the influence of anchoring and adjustment effect. (Prelec, 2003, p. 78)

In an experiment conducted with 55 students attending MIT Sloan School of MBA, participants were introduced different product categories (computer accessories, wine bottles, chocolates and books) without giving price information. Average price of the mentioned products was 70 dollars. After these products were introduced students were asked to note the last two numbers of their social security numbers and asked if they would pay that number for these products. After that they were asked a maximum price they would pay for every product (willingness-to-pay). The purpose of this experiment; to show that the first prices (their two numbers of social security numbers) even though they are random, will shape not only current price estimations but also the estimations in the future. (Prelec, 2003, p. 84)

The experiment presents that the social security numbers play a role as a reference here. According to this, students that have the highest last numbers of social security numbers submitted the highest bids, while students with the lowest last numbers submitting the lowest bids. For instance highest 20 percent of the students offered 56 dollars for a wireless keyboard; the lowest 20 percent of the students offered 16 dollars.

In another experiment, a house presents for students and professional real estate agencies and asked them to make estimation about the value of that house. Before that they were given a random price list. Inevitably, university students were affected by the reference list. The higher the price on the list, higher the students estimated the value of the house. Similarly, professional real estate agencies evaluate the value of the house based on the price on the list. (Northcraft, 1987, p. 84-87)

This comparison that Veblen presents in his work *The Theory of the Leisure Class* (1899) was mainly made through “Conspicuous waste” in the quasi-peaceful era. This time that is named as conspicuous leisure, waste of effort and this material waste that is named as conspicuous consumption are two main elements of competition standards. In the quasi-peaceful era both of them served in the same way, in the first stages of social development. However, with rising differences and developing economy leisure gained more importance. Duesenberry points out that, conspicuous consumption rely upon not one’s absolute level of spending, but rather his/her spending relative to others’ spending. (Duesenberry, 1949, p. 56) From the first moment that prestige which comes with consumption and status becomes the first step of the competition criteria, people do not only make comparisons with the social and economic environment they belong but also try to be better than that class and reach to the values of the upper classes. Veblen introduced pecuniary emulation as the base for this situation.

As civilization moves towards industry, wealth becomes the primary means of determining status. Wealth, and its complementary conspicuous consumption, becomes the tool of invidious comparison. Individuals rank themselves and others in status levels on the basis of inferred wealth. (Searle, 2011, p. 6-7)

According to his perspective, consuming, especially conspicuously, is motivated by relative status concerns which are the ambitions to become a type of person that is formed by the societies. (Bowles, 2005, p. 397). In

addition, the main motivation behind the conspicuous consumption is the judgment of other reference groups. Veblen states that

The motive is emulation – the stimulus of an invidious comparison especially in any community in which class distinctions are quite vague, all canons and reputability and decency and all standards of consumption are traced back by insensible gradations to the usages and thoughts of the highest social and pecuniary class, the wealthy leisure class (Veblen, 1994, p. 81)

#### **4.4. Obedience to Authority**

It can be seen that people internalize the ideas and values of the society they belong to and make decisions according to these value judgments. The psychological mechanism that gives an explanation for this type of behavior is obedience to authority. Veblen referred to this in the *Imperial Germany and The Industrial Revolution* published in 1915 as “unquestioning obedience to authority”. People see certain people as experts and believe that their behavior patterns or their beliefs are pathfinders. Dobelli expresses this as; Bible's first book shows what happens when you do not obey the biggest authority: Man is expelled from the paradise. Smaller authorities try to make us believe that, too; politicians, scientists, doctors, CEOs, economists, government presidents, sports commentators, company consultants and stock exchange gurus. (Dobelli, 2011, p. 24)

Most important study on the obedience to authority is the experiments chain that Stanley Milgram conducted on 1961. Data that is acquired from the experiment is surprising and striking in most ways. Milgram experiment is conducted by the participation of people who are from different age and profession groups. In the experiment, an advertisement was put on the newspaper that says volunteers are needed for a “memory research”. It has been told to the subjects that they will be grouped as teachers and students and the experiment will scale the “impact of punishment on the learning”.

The person who is conducting the experiment introduced himself as a professor who is an expert on the subject. After the meeting, researcher begins to tell them the procedure that will be followed. One of the participants takes the assignment of learning words on a very long list, until he perfectly memorized them. This person will be named as the “student”. The other participant's duty is to test the student's memory and give the student an electric shock every time he makes a mistake. This person will be named as the “teacher”.

In the first stage of the experiment the researcher makes the student sit on a chair where the teacher can see him and attaches electrode on the student's arms. After that, the teacher is taken to a room where he will be testing the questions by an intercom and punish the student for every wrong answer. During the test teacher asks the questions and waits for the replies. If the answer is wrong the teacher tells the degree of the shock and gives the shock. For every mistake the shock's degree is increased for 15 volts. The first part of the test is completed without a problem. Shock is at a degree where it is disturbing but manageable. Actually, during the experiment teacher was listening to a tape recording but he thought the voices are real. While the electric shock increased, the teacher was able to hear first yelling sounds and then crying sounds. Nevertheless the subjects kept giving the shock. Even though some people became uncomfortable and wanted to leave the experiment, when the observer next to them told to continue they did not quit. The interesting part is that the observers meant no threat for the subjects. The subjects were told to keep the experiment but were not told there are any sanctions if they leave. Despite this fact, subject still continued the experiment. With the increasing electric shock the teacher was made to listen the student begging. To the ones that continue even after that were made to listen the student's suddenly stopped voice. Even after the student's voice stopped, some of the subjects still keep giving the shock increasingly.

Milgram evaluated these experiments as: "Ordinary people, simply doing their jobs, and without any particular hostility on their part, can become agents in a terrible destructive process. Moreover, even when the destructive effects of their work become patently clear, and they are asked to carry out actions incompatible with fundamental standards of morality, relatively few people have the resources needed to resist authority" (Milgram, 1974). In conclusion, we are made to believe that it is wrong to not to obey a decent authority since the day we are born. A knowledge that comes from a known authority, provides us the necessary valuable short cuts about how we need to behave in certain situations. As Milgram suggested, to obey what the authority figure dictates to people, gives people some practical advantages.

According to Veblen, the authority figure who draws the social norms is "Leisure Class".

It is for this class [leisure] to determine, in general outline, what scheme of life the community shall accept as a decent or honorific; and it is their Office by precept and example to set forth this scheme of social salvation in its highest, ideal form...Its example and precept carries the force of prescription for all class's below it (Veblen, 1994, p. 71)

Veblen also states in his book *The Theory of Leisure Class* (1899)

It is rather that the leisure-class scheme of life here comes to an expression at the second remove. The leisure class stands at the head of the social structure in point of reputability; and its manner of life and its standards of worth therefore afford the norm of reputability for the community. The observance of these standards, in some degree of approximation, becomes incumbent upon all class's lower in the scale... The result is that the members of each stratum accept as their ideal of decency the scheme of life in vogue in the next higher stratum, and bend their energies to live up to that ideal (Veblen, 1994, p. 58).

This argument can be analyzed in both seizing upon the values and beliefs of higher stratum and pecuniary emulation. A research conducted by Steven D. Levitt and Stephen J. Dubner in their best-seller book, *Freakonomics: A Rouge Economist Explores the Hidden Side of Everything*, can be used to demonstrate the relevance of Veblen's ideas in today's world. A research was conducted on children names in the state of California. One of the most interesting findings of this research was the strong correlation between children's names and their parent's socio-economic status. Most common names in middle-income white households do not appear in the most common names in low-income white households. (see Table 5-6) It is not surprising to find a strong link between baby names and parents' education level if we both consider the strong correlation between income and education and income with baby names.

**Table 1:** Most Common Girl Names

| <b>Most Common Girl Names in Middle-income White Households</b> | <b>Most Common Girl Names in Low-income White Households</b> |
|---|--|
| Alexandra   | Amber  |
| Lauren  | Heather  |
| Katherina   | Kayla  |
| Madison   | Stephanie  |
| Rachel  | Alyssa   |

Source: (Levitt, 2006, p. 157)

**Table 2:** Most Common Boy Names

| <b>Most Common Boy Names in<br/>Middle-income White<br/>Households</b> | <b>Most Common Boy Names<br/>in Low-income White<br/>Households</b> |
|--|---|
| Benjamin   | Cody  |
| Samuel   | Brandon   |
| Jonathan   | Anthony   |
| Alexander  | Justin  |
| Andrew   | Robert  |

Source: (Levitt, 2006, p. 157)

In the later phases of the study a clear path was obtained when people name their babies. According to this path, once a name become popular in the high-income, well-educated parents, it begins to descend socio-economic ladder and this name become more and more popular in the lower socio-economic class's. This study strongly points out that parents are reluctant to take names from their family members or close friends to name their babies. Whether they recognize or not they would prefer to choose names which sound 'successful'. Moreover, higher stratum starts to abandon a name when the name becomes popular in the lower stratum. At the end this name becomes so much common that even lower-income families will not want that name anymore.

**Table 3:** Most Popular White Girl Names

| <b>Most Popular White Girl Names</b> |                |
|--------------------------------------|----------------|
| <b>1980</b>                          | <b>2000</b>    |
| Jennifer                             | Emily          |
| Sarah                                | Hannah         |
| Melissa                              | <b>Madison</b> |
| Jessica                              | Sarah          |
| Christina                            | Samantha       |
| Amanda                               | Lauren         |
| Nicole                               | Ashley         |
| Michelle                             | Emma           |
| <b>Heather</b>                       | Taylor         |
| <b>Amber</b>                         | Megan          |

Source: (Levitt, 2006, p. 158)

**Table 4:** Most Popular Girl Names in High-income Group in 1990

| <b>The Most Common White Girl Names in High-income Group in 1990</b> |
|--|
| Alexandra  |
| <b>Lauren</b>  |
| Katherine  |
| <b>Madison</b>   |
| Rachel   |

Source: (Levitt, 2006, p. 160)

**Table 5:** The Most Common White Girl Names in Low-income Group in 1990

| <b>The Most Common White Girl Names in Low-income Group in 1990</b> |
|---|
| <b>Amber</b>  |
| <b>Heather</b>  |
| Kayla   |
| Stephanie   |
| Alyssa  |

Source: (Levitt, 2006, p. 161)

As can be interpreted from Table 9 most common white girl names in the high-income group in 1990, Lauren and Madison, are also the most popular names in 2000. In addition to that most popular white girl names in 1980, Heather and Amber, are the most common white girl names in low income group in 1990. This obviously states that once a name become popular in high-income families, lower stratum starts to emulate the name and the name becomes popular in the lower-income families. After a while the names becomes so popular that people became fed up, as a result the name becomes obsolete in this rotation. In the meantime, low income families start to look for new baby names to adapt from high-income. According to that research Levitt and Dubner assume the following names as the most popular ones in 2015:

**Table 6:** Most Popular Girl Names in 2015

| Most Popular Girl Names in 2015 |          |              |          |
|---------------------------------|----------|--------------|----------|
| Annika                          | Elanor   | Isabel       | Maya     |
| Ansley                          | Ella     | Kate         | Philippa |
| Ava                             | Emma     | Lara         | Phoebe   |
| Avery                           | Fiona    | Linden       | Quinn    |
| Aviva                           | Flannery | Maeve        | Sophie   |
| Clementine                      | Grace    | Marie-Claire | Waverly  |

Source: (Levitt, 2006, p. 162)

**Table 7:** Most Popular Girl Names in 2015

| Most Popular Boy Names in 2015 |         |             |
|--------------------------------|---------|-------------|
| Aidan                          | Harper  | Beckett     |
| Aldo                           | Jackson | Bennett     |
| Anderson                       | Johan   | Carter      |
| Ansel                          | Keyon   | Mazimillian |
| Cooper                         | Liam    | McGregor    |
| Finnegan                       | Asher   | Oliver      |

Source: (Levitt, 2006, p. 163)

Another important assertion of Veblen is sports and gaming are the most powerful leisure-class values that have an influence on all social classes' in their value judgments beliefs and life styles. In today's world, this emulation fact is strongly being used as marketing gimmicks by many companies. According to Lambert, lower class "tries to emulate the leisure class, sports fans admire and try to emulate their sport heroes." (Lambert, 1999, p. 976) The great effort social class's put on for emulation not just affect the way of life but also dominate the consumption habits.

This situation has drastically increased during 19th century when advertising sector expanded all over the world with the help of communication and economic growth. Advertising started to benefit from the sources of social influence to give functional information and persuasive message since there is a need of consumption in countries. Visual advertisements are one of the most important ways to introduce and sell products. Besides they direct the needs, the choice and even the lifestyles of consumers by integrating weapons of influence in advertisements. This structure known as halo effect can explicitly be observed sport sector activities.

Leading sport companies use famous athletes and players to introduce their recent products. Their main aim is to impose that lower social class's need those products in order to be an admired athlete. As a result, people strongly believe that if anyone wants to be as successful as Michael Jordan, s/he must have the sneakers that Michael Jordan has so they consume those products frequently. Schiffman and Kanuk states that "social status is frequently thought of as the relative ranking members of each social class in terms of specific status factors.

These status factors may include wealth, power, prestige, and they play a considerable role in guiding consumers' purchase intentions and their life style". (Schiffman, 13) Levitt and Stephen Dubner's research "Why Drug Dealers Live Their Moms?" can be a good example for the Veblen's pecuniary emulation and its validity today. Levitt and Dubner examine the life style of crack dealers in detail. According to that study, there is a hierarchal pyramid in organization of crack dealers. The bottom layer of the pyramid consists of the most invaluable people in the chain earning the least from the job but facing the most risk in a vital sense. The statistics points out that the possibility of being killed is 1 out of 4. The only reason that they engage in such a risky job is no different than the reasoning of cute villager girl who moves to Hollywood to be a movie star or the high school football player who gets up five in the morning to lift weights in order to be part of a NFL Team:

They all want to be successful in an extremely competitive area to gain a fortune. They emulate the people in the higher layer of the pyramid in financially and socially. (Levitt, 2009, p 110)

It has been proved with experiments that people try to obey the social rules that are valid in their environment, in their own life style as well. In an experiment that is conducted by P. Wesley Schultz, Jessica M. Nolan, Robert B. Cialdini, Noah J. Goldstein, and Vladas Griskevicius in 2008, normative messages' impact on the energy consumption was investigated. (Griskevicius, 2008, p. 14-25) It was conducted with 290 people who live in San Marco, CA region. Subjects were told that their energy meters would be read and they would conduct some analysis periodically. Educated assistants, after reading the subjects' meters, informed some of the subjects about the energy consumption and told other subjects how much they consume comparing to their neighbors. In conclusion, it was seen that subjects, who compare their consumption to the neighbors, decrease their energy consumption between %1.5-%3.0. "The results offer an explanation for the mixed success of persuasive appeals based on social norms and suggest how such appeals should be properly crafted" (Schultz, 2007, p. 429)

As stated earlier, according to Veblen, "Leisure Class" is accepted as an authority for every part of the society and its guidance affect the people's decision mechanisms. Veblen, in the Dress as an Expression of the Pecuniary Culture from *The Theory of the Leisure Class* (1899), emphasizes the Leisure class's authority position through dressing and fashion. The reason Veblen develops his theory via dressing issue is that; even though there are many forms to present one self's financial situation, clothes and jewelry elements are much more in sight and taken into consideration.

Expenditure on dress has this advantage over most other methods that our apparel is always in evidence and affords an indication of our pecuniary standing to all

observers at the first glance. It is also true that admitted expenditure for display is more obviously present, and is, perhaps, more universally practiced in the matter of dress than in any other line of consumption (Veblen, 1994, p. 112)

It can be also inferred that function of a dress is not just its physical comfort (primary utility) but also being evidence to ability to pay (secondary utility). Conspicuous consumption which consolidates people's emulation feeling can show itself in the subject of clothes. Because according to Veblen clothes should not be only expensive in a pretentious way but also should be contemporary. Because of the fashion concept, which is the latest style of clothing accepted, consumers have a need to buy the products that change season to season and make a continuous spending on it.

Obviously, if each garment is permitted to serve for but a brief term, and if none of last season's apparel is carried over and made further use of during the present season, the wasteful expenditure on dress is greatly increased. (Veblen, 1994, p. 116)

To conform to the accepted fashion with the Leisure Class's purified pleasures and tastes, makes them accepted by the social and economic environment and makes them consume accepted pleasure and reputation standards. "In the common run of cases the conscious motive of the wearer or purchaser of conspicuously wasteful apparel is the need of conforming to established usage, and of living up to the accredited standard of taste and reputability... one must be guided by the code of proprieties in dress in order to avoid the mortification that comes of unfavorable notice and comment, though that motive in itself counts for a great deal" (Veblen, 1994, p. 113).

As a result, people following the fashion all the time and making wasteful spending actually means that they have adopted and become addicted to the authority figure leisure class's pleasures and tastes like their own and in the end they obey the leisure class. In today's society, where the fashion concept

is very important, it can be seen that the marketing and sales strategies are targeting to affect people's choices via fashion.

For instance, according to Veblen “We might naturally expect that the fashions should show a well-marked trend in the direction of some one or more types of apparel eminently becoming to the human form; and we might even feel that we have substantial ground for the hope that today, after all the ingenuity and effort which have been spent on dress these many years, the fashions should have achieved a relative perfection and a relative stability, closely approximating to a permanently tenable artistic ideal.” (Veblen, 1994, p. 116-117). However it is clear that the situation is not like that at all. Fashion is constantly changing; it differs from season to season. Brands that observe the commitment that people have to the fashion change the current trends continuously to make sure people spend more and more money. People's instinct to live up to the standards and their pretension habits bring the will to keep up with the fashion, which brings continuous sales.

#### **4.5. Association and Signaling**

Pecuniary emulation is also an important factor for gaining social status and prestige. Veblen suggests that people consume certain goods and services in order to signal wealth. According to Olof-Johansson-Stenmann & Peter Martinson, individuals would like to be better than their peers and want to give a good impression and be recognized as satisfying various social norms to gain approval from society. (Johansson-Stenman, 2006, p. 129-146) Because of that reason people do not derive utility only from good and services as classical economy suggests but rather derive utility with having a good self-image. As a result, people behave in such a way that to protect and improve such an image. In human history ownership of a certain material goods has always been seen as a measure of social status and prestige. Individuals want to have these certain goods to gain a good impression and be perceived as complying social norms. It became harder and harder to keep pace with these social norms especially with the increasing

globalization and competition in today's world. Therefore people associate some products and services with their past experiences, cultural leanings and upper social class's preferences to concepts like status and prestige (association) and signal the consumption of these products with status and prestige (signaling). "Increasingly, brands are seen as important in creating an identity, a sense of achievement and identification for consumers. It is also evident that certain brand dimensions and associations lead to increased marketplace recognition and economic success as a result of the value consumers place on them" (Meisel, 2008, p. 25)

Veblen (1899) argues that conspicuous consumption, "the motivational process by which individuals strive to improve social standing through consumption of certain goods that can confer and symbolize status both for the individual and surrounding significant others"(Kilsheimer, 1993, p. 341) , associates with the social status and prestige and it is the main behavior that one can signal its superior position.

According to a research size of the wedding celebrations in rural India signals social status and the quality of the groom's family which also enhanced the dignity and the social status of the bride's family (Bloch, 1999, p. 2) It can be interpreted that people associate bigger wedding ceremonies with quality and prestige so as the size of the wedding celebration increases, it signals quality and prestige for the observers. Conspicuous consumption can be observed not only in clothing, food, and such but also shows itself in vacations as unwanted observer increases day by day because people would like to show their high purchasing power and social status in every detail in their lives. As Veblen states "The latter-day leisure-class festivities and entertainments may continue in some slight degree to serve the religious need and in a higher degree the needs of recreation and conviviality, but they also serve an invidious purpose; and they serve it none the less effectually for having a colorable non-invidious ground in these more avowable motives. But the economic effect of these social amenities is not therefore lessened, either in

the vicarious consumption of goods or in the exhibition of difficult and costly achievements in etiquette" (Veblen, 2004, p. 33)

Philips and Back's study "Conspicuous Consumption Applied to Tourism Destinations" forms the basis for relevance of Veblen's claim for today. According to study, conspicuous consumption explains a tourists' desire to show socioeconomic status and to make an impression on others as "Demonstrating the economic ability to visit a luxury resort presents a prestigious social self-image to others and enhances one's position in society". (Philips, 2011, p. 587) The study starts with defining the conspicuous and inconspicuous tourism destinations in U.S. According to survey conspicuous destinations are Las Vegas, New York City, Los Angeles, Miami, Washington, and Boston whereas inconspicuous destinations are Kansas City, Branson, St. Paul, Omaha, Fargo, and Boise. According to Marcoux conspicuous consumption can be explained by five different dimensions; interpersonal mediation, influence of social relations,; materialistic hedonism, desire of consumption; communication of belonging and status demonstration. So in the second step of the study, Philip and Black search the correlation between tourism destinations with the five meanings of conspicuous consumption. When they apply these five dimensions to tourism destinations they saw a great correlation. The research points out that people would prefer conspicuous tourism because these destinations are,

- A way of showing social status, prestige , wealth and success
- Popular among friends or higher stratum
- A way to increase one's value on others and popularity
- A way to show-off and please others

To sum up, this research mentioned above strongly explains the Veblen's ideas mathematically. People prefer to visit conspicuous tourism destinations to increase their value and popularity on others. They visit those places not

because they find these places interesting but rather they find a way to indicate their social status. People would like to engage more conspicuous activities as they are being observed more frequently as article states “People who visit conspicuous destinations might be more satisfied with their visits if they have opportunities to share their visits with friends and acquisitions before and after the visit.” (Philips, 2011, p. 598)

It is obvious in the example above that another psychological mechanism that people use besides the obedience to authority heuristic is association & signaling. Because of these short cuts people can make choices and aim to maximize their secondary utility. Another heuristic for this purpose is availability.

#### **4.6. Availability Heuristic**

This notion is presented by the works of Amos Tversky and Daniel Kahneman. According to Tversky and Kahneman “one judges the probability of an event by the ease with which relevant instances are recalled or imagined” (Tversky, 1974, p. 451) Frequent instances are remembered quicker than less frequent ones, more specifically, continuous occurrences are easier to come to mind.

Studies of Kahneman and Tversky on this area include availability for construction and availability for retrieval. According the availability for construction “classes whose instances are easy to construct or imagine will be perceived as more frequent than classes of the same size whose instances are less available” (Tversky, 1973; p. 166) In this study, subjects is asked to choose whether there are more words starts with a K, or that K is its third letter? It is expected that people assume there are more words starting from K with the judgment of frequency is mediated by availability. Actually there are more words that K is the third letter than K is the first letter. As a result of the experiment 105 of the 152 subjects' first letter is K and 47

subjects stated that there are more examples that the letter K is the 3rd letter. (Tversky, 1973; p. 173)

This situation reveals that as the first letter in a word constructing is easier to recall people conduct a mental short cut to come through the decision. It can be inferred from the study that availability heuristics is sometimes not sufficient to conclude reliable decisions since it prevent decision makers to see the overall picture and leads to faulty conclusions. (Aronson, 2004; 74)

Availability for retrieval is defined as “attempt to recall some instances and judges by the ease with which instances come to mind” (Tversky, 1973; p. 175) More specifically, classis with having more examples that can be recalled easily will be considered large than the ones of the same size whose examples are less available. A study was again conducted to judge for this idea; The subjects were given a list that consists both woman and man names in it, some subjects were asked which gender that can be given the names is more in the list and other subjects were asked to tell the names that they can remember. Certain names in the list belonged to the famous people (Richard Nixon, Elizabeth Taylor) other names were chosen randomly. In total there were 4 different lists, in each list there were 39 names, and they were given 2 seconds to listen every name. In the first 2 lists famous woman names were more (19), in the last two lists famous man names were more (19). The subjects were asked to listen to the tape and then write down the names they can remember or specify which gender was more on the list. In conclusion subjects remembered 12.3 of the 19 famous names and 8.4 of the other random names. Also 80 of the 99 subjects stated that there were more men in the list that consists more famous men and similarly there were more women in the list that consists more famous women. (Tversky, 1973; p. 166)

This situation concludes that in some cases only one type of class instances is recalled since it is easier to remember. In such a situation subjective

probability rely up on the affinity between the example and the case that is evaluated. As a result, judgments may lead to fallacy conclusions.

The article “The Influence of Product Variety on Brand Perception and Choice” that is published by Jonah Berger, Michaela Draganska and Itamar Simonson, presented that the increase in the variety of the products of the brands have a positive impact on consumers' quality perception and brand choice and also consolidates the idea that the brand is an expert in its category (Category Expertise).

In other words, people use the availability heuristic as a mental short cut as the variety offered by a brand increases. The reason behind utilizing this mental short cut is that it is often hard to assess the true quality of a product/service under the uncertain situations. As a result people use some heuristics that create a quality cue to reach a decision. Brands increasing the variety of the products, presenting gourmet tastes and special made products enable consumers to show their education, social class and intellectual activities. People aim to strengthen their status and prestige in the society with their selective choices by showing little differences in the products.

According to Veblen, people consume the best food, drink, drugs, shelter, services, ornaments, clothes, guns, tools, entertainment, charms, icons and idols freely. In the process of gradual improvement of these consumable items, the first aim and starting point of the innovation is the high performance of the innovated and refined products devoted to the individual's comfort and welfare. At this point people make well-defined preferences and aim to maximize their utility. Choices that can be seen as rational with this side may not be always rational when the secondary utilities step in the picture. According to secondary elements, this type created by looking at its talent and standard with the fame gun in its hand, restrains innovations. Consuming these superior items (gourmet or specially made) is a proof of

wealth so it also means honorable; and vice versa, if these items are not consumed enough; it is a sign of inferiority and insignificance.

This development of the over nicety about the qualitative perfection of eating, drinking etc. do not still only affect the life style but also affect the leisure gentleman's education and intellectual activities. People should be able to discipline their pleasures according to the order that is accepted by the society and to separate these products that they consume to look more prestigious as noble and not-noble. For this, consumers must show their expertise in the areas such as food, drink, clothes, architecture, guns, games and dances. However, creating this discipline and these pleasures takes certain time and effort, alongside in situations where the time is limited, these choices become harder. (Veblen, 1994, p. 61) In this case, people need to use their mental short-cuts in their decision process. A brand offering more product or service in different categories, in comparison to its opponents, makes this brand look like it is an expert in its area; consequently consumers associate the brand with quality and do not remember that they need to use the product or the service.

Study that has been done by Berger, Draganska and Simonson shows that, brand having more product variety, orderly; increasing brand perception, associating the brand with quality and proving the brand is an expert in its area. In addition to that entire compatible product variety also influences the products experience of consumers in a positive way.

#### Study 1 – Product Variety and Brand Perception

For the first study, subjects were asked to taste chocolates that they choose from 2 different brands. 30 different types of chocolates that the first brand offered (A) were lined up as 5 columns and 6 rows, other 10 different types that the second brand offered (B) were lined up as 5 columns and 2 rows. Brand A offers different aromas than brand B already offers. Therefore subjects that tasted the products that both A and B offered mutually, actually

tasted the same product. After the subjects tasted the products, they were asked which chocolate they would likely to buy and which brand it belongs to. In the end, %79 of the participants preferred brand A which offers more types of chocolates, only %21 of them chose brand B. From the subjects that tasted the same product that both A and B offered (%73), %71 preferred brand A and %29 preferred brand B. This experiment proves that even though people tasted the same chocolate, they would most likely buy the brand A which has more options, shortly it proves that product variety consolidates brand perception.

#### Study 2 – Product Variety and Quality Perception

In the second study, 10 types of products of brand A lined as 5 columns and 2 rows and 30 types of products of brand A lined as 5 columns and 6 rows were offered to different group of subjects. All 10 of the chocolate types that were used in the first group were also used in the second group, too; and subjects were told that all the products of the brand were presented. After the subjects taste the product they choose, they were asked to evaluate the product according to its quality. As a result, in the situation where more types of products were offered, people thought the products have higher quality.

#### Study 3 – Product Variety and Expertise Perception

First two studies proved that product variety has a positive impact on the brand and quality perception. With the 3rd study, it was researched that if more variety of products have an impact on the perception of brand's expertise degree. To do this, subjects were given information about an eyewear company and a chocolate company and were asked to analyze these brands in different dimensions and evaluate the brand's expertise. Only difference between two conditions that are created for the participants is the product variety. Expected result of the experiment is; brand that has more product variety was evaluated as both more qualified and expert by the participants. Experiment was made on the internet with the participation of 75

people and it was stated that participants would be given amazon.com gift certificate worth 5 USDs.

Participants were randomly distributed to the groups where there is more or less product variety and told that they have been shown all of the products of the brand. After the participants were given related information about the brands, 4 types of glasses and 10 types of chocolates were promoted to the group where the diversity was less, and 16 types of glasses and 30 types of chocolates were promoted to the group where the diversity was more. In the brochure that is prepared for the glasses it was written: "Bushnell offers durable and affordable binoculars, in compact to full-sized, with fully coated optics. Nonslip rubber pads for secure grip in all weather conditions, available in 4(16) different models, it's easy to see why Bushnell is a good choice" (Berger, 2007, p. 467) In the brochure for the chocolate company it was written:

Created in 17th century, this chocolate confectionary was named after the Duc De Praslin. Since Duc De Praslin chocolates have been a legendary symbol of 'art de vivre.' These delectable chocolates are a mixture of distinction, frivolity, and imprecision. Available in 10(30) different varieties, these chocolates are the true taste of a historic creative cultures". (Berger, 2007, p. 465)

After the information was given to the participants, the products were shown and participants were asked to make a grading about the brand's expertise degree and product quality. In conclusion, as predicted, participants gave higher grades about the product quality and brand's expertise degree where they were offered more product variety.

**Table 8:** Influence of Variety Offered on Choice Share, Perceptions of Quality, and Category Expertise

|                 | Choice Share(%) | Quality Perceptions | Category Expertise |
|-----------------|-----------------|---------------------|--------------------|
| Binoculars      |                 |                     |                    |
| Larger Variety  | 65.00           | 5.82                | 6.09               |
| Smaller Variety | 46.00           | 5.00                | 5.16               |
| Chocolates      |                 |                     |                    |
| Larger Variety  | 72.00           | 5.85                | 5.90               |
| Smaller Variety | 49.00           | 5.08                | 5.26               |

Source: Berger, 2007, p. 465

As it can be seen from the table, product variety has a positive impact on the perception of product quality and brand's expertise degree. In the situation where there is more types of products, consumers make decision by using their availability heuristics; and associate product variety with product quality and expertise. Moreover, increasing the product variety makes it appeal to more segments. Today brands keep their product range wide and consolidate these perceptions that are created on the customer. Authentic and exotic products brands offer, even though are less demanded, they affect people's perception against the brand. "Even if few customers actually choose such items, their presence can create a certain aura and enhance the brand's perceived category expertise" (Berger, 2007, p. 470) Under these conditions, consumers are highly motivated to prefer brand with variety of offering under one category regardless of its price and its real quality.

As Veblen stated in the *Theory of the Leisure Class* (1899), qualitative perfection of eating, drinking, etc. and also the difference between noble and not-noble for every product is created by the leisure class itself. Exemplariness and influence of this class has a power to be a prescription for every class underneath it, while it shapes the lower classes' mental attitude and usage of reputation method, it manages the necessary provisions and this common prescription works in the guidance of pretentious waste regime

which is being processed by the working instinct, continuously in various degrees. In conclusion today's consumer society, even though they do not consume that brand, associate that certain brand's different and special products with the upper class's choices and therefore are perceived as expert and qualified about the brand. For this reason, brands' keeping their product range wide makes people to create a constructive preference (availability heuristic), choose this brand independently from the price and make pretentious consuming.

## **CHAPTER 5**

### **MARKETING & HIDDEN UTILITY**

Although, marketing strategies which are being utilized to affect consumers are not one of the purposes of this thesis, the strong bond between hidden utility and marketing is open new horizons for further studies. In that manner the relation between marketing and hidden utility will be analyzed in this chapter.

Brands required to work on customers and their choices to attract, to appeal them, and to differentiate themselves from their competitors. For that purpose brands resort number of strategies that will help them.

For example; to examine the importance of brand perception about product choice Ralph Allison and Kenneth Uhl made an investigation and it turns out that people make their decisions according to brands' marketing activities, more than products' physical features. According to this, a brand's success depends on the brand's image of that product rather than the quality of the product itself. This presents that brands' marketing activities and the effect on the brand perception they make, is affecting consumers' decision mechanisms. Therefore consumers' decision mechanisms are affected by these perceptions and it blocks the rational behaviors of the consumers. Brands' marketing activities drag consumers away from rationality; consumers create some short-cuts using their habits and instincts while making a decision. Products and services that satisfy upper social classes pleasure and taste are remembered more quickly, hence, stand out from the rest and preferred more by the society.

As mentioned above, in the article "Influence of Beer Brand Identification on Taste Perception" it is clearly stated that brand perception is crucial for

peoples' choices. It has been researched for Carling Brewing Company whether people able to identify the difference between beer brands if they had tasted well-known beer companies' beer without a sign on it. 326 beer-drinkers, who drink at least 3 beers in a week, participated in this research. All market signs on the beer cans are removed and tags such as A,B,C,D,E,F,G,H,I are placed on them for this experiment. Every 6 pack consist 3 different beer brand and brands are placed in the packages randomly. 6 different groups and their distribution numbers are shown on the table below.

**Table 9:** Beer Groups and Numbers

|                       | Placed |
|-----------------------|--------|
| Group 1 (AB, CD, EF)  | 53     |
| Group 2 (AB, CD, IJ)  | 55     |
| Group 3 (AB,CD,GH)    | 55     |
| Group 4 (AB,EF, IJ)   | 55     |
| Group 5 (AB, GH , IJ) | 54     |
| Group 6 (AB, EG, GH)  | 54     |

Source: (Allison, 1964, p. 36)

Parameters that are aimed to measure with this test;

- 1) Can participants identify the difference between beers on “blind test”?
- 2) Can participants differentiate their own brand choice from other beers?
- 3) What are the criteria while making a choice about a beer the participants use?

On every 6 pack there were “rating tags” and the participants were asked to evaluate the beers both overall and specific features (after taste, aroma, bitterness, body, carbonation, foam, lightness, strength, and sweetness). After a week the packages were collected from the participants and they were given a new package. On the new package there were 6 different beers with brand tags on them.

- 1) Experiment shows that participants cannot identify the difference between the beers.

**Table 10:** Blind Overall Taste Test – All Participants

| Beer Brand | Rating | Significantly Different From Other Brands(*) |
|------------|--------|--|
| AB         | 65.0   | No   |
| CD         | 54.1   | No   |
| EF         | 63.3   | No   |
| GH         | 63.4   | No   |
| IJ         | 63.3   | No   |

\* At the 0.05 level

(Allison, 1964, p. 37)

- 2) Also experiment shows that participants cannot identify the specific features of the beers.

**Table 11:** Blind Taste Test – Specific Characteristics

| Characteristic | AB | CD | EF | GH | IJ | Significantly Different Among Brands(*) |
|----------------|----|----|----|----|----|---|
| After Taste    | 59 | 52 | 57 | 55 | 55 | No                                      |
| Aroma          | 64 | 68 | 63 | 62 | 62 | No                                      |
| Bitterness     | 58 | 54 | 53 | 54 | 54 | No                                      |
| Body           | 53 | 58 | 60 | 53 | 57 | No                                      |
| Foam           | 62 | 66 | 63 | 62 | 66 | No                                      |
| Lightness      | 68 | 63 | 69 | 64 | 69 | No                                      |
| Strength       | 50 | 51 | 56 | 50 | 53 | No                                      |
| Sweetness      | 64 | 61 | 59 | 62 | 66 | No                                      |

\* At the 0.05 level

(Allison, 1964, p. 37)

3) Participants can not differentiate their own brand choice on “blind test”.

**Table 12:** User Loyalty to “Their” Brand (Blind Test)

| <b>Brand<br/>Drank<br/>Most<br/>Often</b> | <b>AB</b> | <b>CD</b> | <b>EF</b> | <b>GH</b> | <b>IJ</b> | <b>Own Brand<br/>Rated<br/>Significantly<br/>Higher Than All<br/>Others *</b> |
|---|-----------|-----------|-----------|-----------|-----------|---|
| AB  | 67.0      | 62.4*     | 57.7*     | 65.0      | 65.8      | No  |
| CD  | 64.9      | 65.6      | 65.4      | 63.2      | 63.9      | No  |
| EF  | 68.8      | 74.5*     | 65.0      | 62.5      | 61.4      | No  |
| GH  | 55.4      | 59.2      | 68.7*     | 60.0      | 71.4*     | No  |
| IJ  | 68.4      | 60.5*     | 69.2      | 62.0      | 65.6      | No  |

\* At the 0.05 level

\*\* Brands significantly different from user’s own brand

(Allison, 1964, p. 38)

However, participants who cannot differentiate the beers on blind test, can make more distinctive comments on the beers in the situation when the beers have their brand tags on them. Also participants gave higher points to the beers they prefer in their own daily lives, when the brand tags were on the beers.

**Table 13:** Comparison Taste Test – Blind vs. Labeled

| <b>Beer Brand</b> | <b>Blind Test</b> | <b>Labeled Test</b> | <b>Significant Difference Between Labeled and Blind Test (*)</b> |
|-------------------|-------------------|---------------------|--|
| AB                | 65.0              | 70.6                | Yes  |
| CD                | 64.1              | 72.9                | Yes  |
| EF                | 63.3              | 67.8                | Yes  |
| GH                | 63.4              | 76.9                | Yes  |
| IJ                | 63.3              | 67                  | Yes  |

\* At the 0.05 level

Source : (Allison, 1964, p. 39)

In conclusion of this experiment, Carl Brewing Company revealed that rather than the beer's taste and quality, the perception and market image of the brands they create on the customer is more important and should be analyzed in depth. As the experiment shows, even though the consumer cannot identify the quality or feature differences of products or services, they make some choices and by these choices they create a loyalty to the brand. This experiment also shows that how decisions are made far from rationality.

Veblen uses the silver spoon example to explain why a product is preferred more than the other even though there is not a differentiating feature between them. According to that, a silver spoon, that is handmade and worth ten or twenty dollars, is not more useful than a spoon that is made from the same material but machine made. Moreover, it is not also more useful than a spoon that is made from aluminum which is worth only ten or twenty cents and machine made. For instance,

if a close inspection should show that the supposed hand-wrought spoon were in reality only a very clever citation of hand wrought goods, but an imitation so cleverly wrought as to give the same impression of line and surface to any but a minute examination by

a trained eye, the utility of the article, including the gratification which the user derives from its contemplation as an object of beauty, would immediately decline by some eighty or ninety per cent, or even more” (Veblen, 1994, p. 86)

Shortly, the pleasure that consumers get from a product depends to the reputation that it brings rather than the product's usefulness. Brands use this situation and prioritize brand perception as a norm that preserves and shapes the consumers' selectiveness.

Experiments that are conducted suggest that the price that consumer is ready to pay is easily canalized; which means; consumers cannot deal with the prices that they are ready to pay in exchange for products and experiences with their own will, sufficiently. Especially anchoring and adjustment which are manipulated intensely by the marketing theory today, affect the decision processes of the consumers. Unlike the classical economic theories, in real world, prices that the producers suggest, prices that are declared, promotions, product advertisements, etc are taken as reference. All the mentioned parameters are supply-side variables (Ariely, 2008, p. 66) In this situation it can be seen that what affects the market prices is not the consumers' willingness to pay; instead causality somehow is reversed and what affects the consumers' willingness to pay becomes the market prices itself. (Ariely, 2008, p. 66)

Rolf Dobelli summarizes this situation; anchors are the banks and we hold on to them very tightly. Also, the “Suggested Price” that is written on most of the products is nothing but an anchor. Sales specialists know that before making an offer, they have to make an anchoring. (Dobelli, 2011 , p. 94)

As it can be seen from the above experiments, people display some behaviors by making some comparisons and obeying the authority. Cialdini points out that, titles are very important authority symbols. Normally to have a title needs work and success over many years. However certain people who

are not working like that, can create themselves a label and can gain reputation automatically. For example in health business, advertisers use an actor as a doctor to introduce a product, and use the prestige of the doctors in the society. Actor Robert Young warns people against caffeine and suggests them to use caffeine-free coffee Sanka in an advertisement. This product attracted lots of attention in the time when the commercial was aired, what makes this commercial this much effective is; as well as the advertisement company knows; that doctor Marcus Welby character which was played by Robert Young for a long time had an impact on people. Objectively it is not rational to act on a person's words, who everyone knows is an actor which played a doctor, but because people see doctors as an authority figure, the company used this situation in its favor. (Cialdini, 2001, p. 272) To sum up, the above examples set a ground for further studies on hidden utility and marketing strategies.

## CHAPTER 6

### CONCLUSION

The main aim of this thesis was to reveal the ideas of Veblen in order to understand the main instincts and habits that dominate decisions mechanisms. In this manner two concepts primary and secondary utility are analyzed to better understand of Veblen's ideas and their interconnection of human behavior.

Veblen states that, individuals do not underestimate the need for maximizing their primary utility. On the other hand instincts and habits also an important factor for individuals' decision processes. The utility which is guided by instincts and habits, especially by emulation, is called secondary utility. As Smith suggests in his work named *The Theory of Moral Sentiment* (2011) human behaviors are effected by two different factors which are opposite to each other 'passions' and 'impartial spectator'. Passions can be restrained by the impartial spectator – “a moral hector who, looking over the shoulder of the economic man, scrutinizes every move he makes” (Grampp, 1948, p. 318). However, if the passions are sufficiently intense then they can over-ride the impartial spectator. Briefly, Adam Smith suggests that people go after their economic interest rationally, but at the same time, they are guided by non-economic urges.

People try to maximize their secondary utility through their instincts and habits, however human capacity became more and more limited especially in developed societies, with the data getting intense with the technology and limited time in the decision processes. As a result people make use of some heuristics in their decision making. These heuristics get so common that they become a reflex for individuals. Consumers use heuristics as mental short-

cuts in the process of choosing product and service and make unconscious decisions. As Mill also stated in *Utilitarianism* "...sometimes [decision] is done unconsciously, the consciousness coming only after the action: at other times with conscious volition" (Mill, 2001, p. 40) At this point of view, it can be said that primary utility is maximized with conscious mind and secondary utility is maximized with unconscious mind. Because people try to maximize their secondary utility without consciousness, secondary utility can be referred as "hidden utility". In the thesis, evolution of secondary (hidden) utility is explained and tools, heuristics that are used by individuals for maximizing the secondary (hidden) utility are analyzed.

Veblen, in *Theory of Leisure Class* (1899), examined human behavior and social structures of the savage groups presenting his conclusions with examples and case studies. According to his study, savages live in a peaceful society where there is no sign of social distinction. Individuals mainly work in order to survive and people struggle to satisfy their basic needs in a society where there is no private ownership in these groups. There is no distinction between the gender roles; women and men both conduct the similar works and share responsibilities. It can be stated that the main theme of this era is struggle for life.

The societies have been developed thanks to technological progress the barbarian stage starts. There exists two stages in this era; predatory and quasi-peaceable stage. There is a change peaceable to warlike habit of life and nomadic hunting is the main mean of subsistence. Social and economic development emerges in that period as individuals interact. As people satisfy their basic needs, private ownership starts to develop with the ownership of women by men. Although both men and woman contribute to work in the society they carry out different type of work. Women more likely conduct menial labor where men take part as warriors, priests, etc. in the society. The mentioned distinction in the gender roles creates social classes in the society. At the same time, wealth accumulates in the society and there arises

a differentiation within the classes. Besides, absence from the menial work is considered as prestigious and honorable. Due to this continues interaction of individuals' emulation emerges as the competition between individuals intense.

Conspicuous consumption and conspicuous leisure are the main ways to show social status and to signal wealth. In the modern world, changes in the society occur due to the changes in the material facts of life. Conspicuous consumption motivates the feeling of emulation compared to conspicuous leisure. People conspicuously consume to announce their wealth and social status to their community.

The consumption behavior changes according to different societies and epoch. Products or services that are consumed are chosen according to moral values that of each society. The group who determines these standards that societies accept is the "leisure class" according to Veblen. General feature of this group is that they are far from menial work and have no relation to any of the jobs that are related to production. Conspicuous leisure and conspicuous consumption are the two main elements that this class utilizes to show off their social status and prestige.

Leisure class knows which product or service is honorable and prestigious and makes decisions according to that information social and economic rules that are created by this class are accepted by the lower classes and imitated. These etiquette and pleasure rules become molded and internalized and are transferred from generation to generation. These rules that are engraved in individuals' habits in the learning and experimenting process play an important role in decision processes too. Consumers use these rules as mental short-cuts in the process of choosing product and service and make unconscious decisions.

The leisure class is a dominant figure in shaping the societies value judgments and choices. The value judgments that are created by the leisure class have different effects to the decision processes. The influence of leisure class on other classes did not only take the attention of Veblen but also the marketers. It has been proved that choices of this authority figure become a guide for other people and people use some mental shortcuts in their choice processes. In this manner, all of the heuristics stated above; obedience to authority, anchoring & adjustment, association & signaling, and availability creates an opportunity for the marketers to affect the hidden utilities of consumers.

The combination of two dynamics; instinct and habits on one side and the inability of examining all available data under time pressure on the other, make it almost impossible to take rational decisions. As a result of two dynamics stated above consumers utilize some constructive preferences or mental short-cuts in their choice processes. However, those mental shortcuts are open targets for manipulation as they are done unconsciously. In fact marketing theory exercise variety of techniques to manipulate consumers' decision processes.

We find out that mentioned heuristics are manipulated to create or strengthened the brand image, to make more profit, to accustom consumers to a specific product, to decrease awareness of real product quality while increasing the brand awareness and so on. For instance, marketing theory employs obedience to authority to guide consumers' purchasing habits. It also utilizes anchoring and adjustment for their pricing strategies. People evaluate what's good, qualified or beautiful according to the anchors. In addition, people utilize availability heuristic because it is often hard to assess the true quality of a product/service under the uncertain situations. Consequently it is not hard for brands to manipulate people's thinking structure with strategic moves.

The results of the present study also confirmed that it is important to analyze marketing theories in depth with the help of the economics theories. It will both help in explaining the consumer behavior and avoid the marketing manipulation on human behavior. It is possible to develop this analysis with further studies

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## APPENDICES

### APPENDIX A. TURKISH SUMMARY

Özellikle son 20 yılda psikolojik ve sosyolojik temellere dayanan ekonomik çalışmaların ve amprik deneylerin neoklasik iktisata yeni yaklaşımlar kattığı görülmektedir. İnsan davranışları ve karar sistemleri uzun süredir sadece ekonominin değil psikoloji, sosyoloji ve pazarlamanın da gündeminde yer almaktadır. Bu konularda yapılan araştırmalar özellikle son 20 yılda davranışsal ekonomi gibi yeni alanların önünü açmaktadır. İnsan davranışını açıklama üzerine gelişmeler ve araştırmalar artıyor olmasına rağmen, insan davranışını tam olarak açıklayabilen ve tahmin edebilen sistemler henüz oluşturulamamıştır. Bu durum insan davranışlarını anlamak için yayınlandığı dönemde daha geri planda kalan ekonomik düşüncelere daha fazla önem verilmesinin kaçınılmaz olduğunu ortaya koymaktadır. Bu noktada, tezin ana amacı “gizli fayda” kavramının temeli olan Veblen’in Aylak Sınıf’ın Teorisi (1899) eserinde yer verdiği ikincil fayda kavramını incelemektir. Bu kapsamda tezde gizli faydanın maksimize edilmesinde kullanılan ikincil fayda ile kavramsal sezgiler ve psikolojik mekanizmalar ilişkilendirilecektir. Gizli fayda kavramı, Veblen tarafından ortaya konan öykünme ve gösterişli tüketim kavramları ile karar süreçlerinde kullanılan kavramsal sezgiler ve psikolojik mekanizmalarını birleştirmektedir.

Yüzyıllardır gelişen, değişen ve dönüşen ekonomi literatürü döngüsü boyunca insanların ekonomik davranışlarını açıklamaya çalışmış ve altında yatan sebepleri sorgulayarak mevcut teorileri geliştirmeyi amaçlamıştır. Klasik iktisattan günümüzde popüleritesi giderek artan davranışsal ekonomiye uzanan bu süreçte; pek çok farklı düşünce, teori ve matematiksel model ortaya konmasının yanı sıra psikoloji, sosyoloji gibi farklı bilim dalları bu sürece dahil olsa da, hala insanların davranışları altında yatan temel sebepler ve bunların sonuçları ile ilgili kesin yargılara varmak kolay değildir.

Hala gelişimine devam eden bu literatürü iyi anlamak, bu literatüre katkı sağlayan tüm düşünürlerin ortaya koydukları fikirleri günümüz insan davranışlarını açıklamak üzere değerlendirmek son derece önem taşımaktadır.

Bu amaçla ekonomi literatürüne büyük katkılar sağlayan ancak kendi döneminde gölgede kalan Thorstein Veblen'in düşünceleri ve insan davranışları üzerine yürüttüğü tezler incelenerek insan davranışları ve altında yatan temel sebepler ifade edilmeye çalışılacaktır. İnsan davranışların incelenmesi Veblen ile başlamamış olsa da; kendisinin düşünceleri bugün hala açıklanamayan pek çok davranışın nedeni üzerine fikir geliştirmeye yardımcı olacaktır. Thorstein Veblen'in, özellikle Aylak Sınıfın Teorisi (1899) eserinde insanların seçim sürecine ışık tutan çok değerli fikirleri bulunmaktadır. Veblen, bu fikirleri insanlık tarihinin gelişiminin başından modern toplumlara uzanan süreçte detaylı olarak inceleyerek günümüzde açıklanmaya çalışılan birçok ekonomik davranış sebep sonuç ilişkisi içinde vermeye çalışmıştır.

Veblen 1899 yılında yayınlanan Aylak Sınıfın Teorisi eserinde klasik iktisat kalıplarının dışında çıkarak, insanlık tarihini vahşi gruplardan başlayarak bugün tüketici olarak tanımladığımız modern insana uzanan bir akışta incelemiş; insanların gelişim süreçlerini, toplumsal dönüşüm ve teknolojik ilerleme ile harmanlayarak, tüketim alışkanlıkları ile ilgili bir teori geliştirmiştir. Veblen'in ortaya koyduğu bu yapıya göre karar verme aşamasına etki eden 2 farklı etken bulunmaktadır; bunlardan ilki eşyanın kullanımından gelen birincil fayda, diğeri ise eşyanın kıskandırma gücünden gelen ikinci faydadır.

Veblen'e göre, vahşi gruplar dönemindeki küçük gruplardan oluşan toplumsal yapı teknolojinin gelişmesi ile birlikte daha bütünleşik bir noktaya gelmiştir. İnsanlar toplumsal ve kültürel yapıda yaşanan bu dönüşüme içgüdüleri, deneyimleri, hafızaları ve öğrenme becerileriyle adapte olmakta ve bu yapıda oluşan gelenek, inanış ve düşünce biçimlerine bağlı yaşamaktadır. Veblen'in

oluşturduğu yapıya göre insanların karar verme sürecine etki eden 2 temel faktör bulunmaktadır. Bu faktörlerden ilki klasik iktisatın da temelini oluşturan bencil ve rasyonel insanın fayda maksimizasyonudur. İnsanoğlu vahşi gruplardan oluşan ilk çağlardan itibaren kendi fayda maksimizasyonuna göre hareket etmeyi benimsemiştir. Karar verme sürecini etkileyen diğer faktörler ise içgüdülerden beslenerek öğrenme ve deneyim süreçleriyle pekişen ve yaşanan toplumun doğrularına adapte olan alışkanlıklardır. Toplamların gelişmesi ile artan rekabet koşullarına ayak uydurmaya çalışan insanoğlu için bahsi geçen ikincil unsurlar giderek daha ön plana çıkmış ve bireyler toplum tarafından oluşturulan bu normlara göre seçimler yapmışlardır.

Bu noktada, neoklasik ekonominin dayandığı temel olan ekonomik çıkar kavramının Veblen tarafından tamamen reddedilmediği; karar verme sürecindeki 2 önemli unsurdan biri olarak karşımıza çıktığı görülmektedir. Ancak Veblen, birincil faydanın karar verme süreçlerine etki eden tek faktör olmadığını ve bu nedenle ikincil faydaya etki eden faktörlerden bağımsız düşünölemeyeceğini ortaya koymaktadır. Veblen'in 'diğer çıkarlar' olarak belirttiği 'ekonomik olmayan' faktörler ikincil faydanın temelini oluşturan unsurlardır. Veblen'e göre bu faktörler çoğu zaman ekonomik çıkarların önüne geçmekte ve karar vermede daha yönlendirici olmaktadır. Bireyler her ne kadar rasyonel kararlar almak için çaba göstetseler de ekonomik çıkarlar bazı durumlarda ekonomik olmayan çıkarların gölgesinde kalmakta; bu da insanların rasyonel kararlar almalarına engel teşkil etmektedir. Veblen'in ekonomik olmayan çıkarlar olarak tanımladığı faktörlerin temeli içgüdü ve alışkanlıklardır. Veblen'e göre insanlar; vahşi gruplardan modern topluma kadar insanlık tarihinin her döneminde seçim süreçlerinde alışkanlıklarından ve içgüdülerinden etkilenmiştir. Veblen'e göre öykünme duygusu en önemli içgüdülerden biridir ve bu içgüdü insanları seçim süreçlerinde yönlendirmektedir. Aslında insanların ikincil fayda olarak maksimize etmeye amaçladıkları eşyanın kıskandırma gücüdür. Bu duygu insanlar için o kadar önemli bir noktaya varır ki diğer tüm ekonomik çıkarlar göz ardı edilebilir. İnsanların günümüz toplumunda bu iki fayda arasındaki farkı anlaması; hem

talebi oluřturan bireyler hem de arzı oluřturan firmalar iin byk nem teřkil etmektedir.

Gnmz modern toplumlarında insan davranıřlarını anlamanın yanı sıra davranıřların altında yatan psikolojik ve sosyolojik nedenleri anlamak, karar verme mekanizmalarını analiz ederek bu srece etki eden etmenleri ortaya koymak hem insan davranıřlarının aıklanabilmesi hem de tahmin edilebilmesi iin nem tařımaktadır. Bu kapsamda Veblen'in ortaya koyduėu fikirler yol gsterici olmakta; ancak geliřtirilmeye ihtiya duymaktadır. Bunun temel nedeni Veblen'in insanların zellikle tketim merkezli davranıřlarının sebeplerini ortaya koyması ancak karar verme mekanizmaları ve bu mekanizmaya etki eden faktrler konusunda bir yapı tasarlamamıř olmasıdır.

Bu anlamda tezin ana amacı; Veblen'in ikincil fayda kavramı ve bu kavrama etki eden id (yknme) ve davranıřlar (gsteriřli tketim) temel alınarak, bu davranıřlar altında yatan kavramsal sezgiler ve psikolojik mekanizmaların birleřtiėi ve bizim "gizli fayda" olarak adlandırdıėımız yeni bir yapı ortaya koymaktır. Bu kapsamda ncelikli olarak yknme ve gsteriřli tketim kavramlarının toplumlarda ortaya ıkıř sreleri Veblen'in insanlık tarihi geliřimi yapısı ile birlikte analiz edilmektedir. Toplumlarda oluřan ekonomik ve sosyal sınıfların yapısal deėiřimine de yer verilen bu blm fayda kavramının detaylı analizi izlemektedir. Bu noktada hem neoklasik iktisatın olgunlařtırdıėı birincil fayda kavramı hem de Veblen tarafından yapılandırılan ikincil fayda kavramı incelenmektedir. Tезin diėer blm ise insanların dnřen ve teknolojik ilerlemelerle hızla geliřen yařamlarında ikincil faydayı maksimize etmek iin ihtiya duydukları ve bilinli ya da bilinsiz olarak kullandıkları kavramsal sezgiler ve psikolojik mekanizmaları ele almakta ve gizli fayda kavramını detaylandırmaktadır. Son blm ise, tezin ama amacı olmamakla beraber, tezin ortaya koyduėu gizli fayda kavramının pazarlama stratejileri ile birlikte ne řekilde ynlendirdiėini rneklerle aıklamaktadır.

Veblen insanlıėın geliřim srecini aıklarken hem gizli faydanın altında yatan yknme duygusunun geliřimine yer vermekte hem de sosyal grupların daha

bütünleşik yapıya ulaşması sonucu dış etmenlerin nasıl şekillendiğini vurgulamaktadır. Bu nedenle Thorstein Veblen, “Aylak Sınıfın Teorisi” eserinde Aylak Sınıf’ın oluşum evresini anlatırken insanlığın da gelişim ve oluşum evresini detaylı olarak incelemek günümüz insanının seçim sürecini anlamak için önem teşkil etmektedir. Vahşi gruplar ile başlayan süreci, barbarlık, yarı barışçıl sanayi dönemi ve modern dünya ekseninde anlatan Veblen, insanlığın yaşadığı bu dönüşüm sürecine etki eden faktörleri ve bu faktörlerin günlük yaşamdaki yansımalarına da dikkat çekmektedir.

İnsanoğlunun gelişimi vahşi gruplar ile başlamaktadır; vahşi gruplar az sayıda insanın oluşturduğu, farklı insan gruplarının etkileşim halinde olmadığı ve avcılık, toplayıcılığın temel geçim kaynağı olduğu topluluklardır. Vahşi gruplar temel ihtiyaçlarını karşılama düzeyinin üzerinde olmadıklarından herhangi bir mülkiyet yapısı geliştirmemişlerdir. Bu toplumlardaki tek rekabet ölçütü ekonomik yararlılık olarak görülmektedir. Bu toplumlarda bireyler arasında herhangi bir uzmanlaşma görülmez; kadın ve erkekler aynı görevleri yapmakta, herhangi bir sınıf farklılığı bulunmamaktadır. Yağmacılığın başlamasıyla vahşi gruplar dönemindeki küçük topluluklar arasında etkileşim hızlanır ve bu durum sosyal gelişmenin ilerlemesini sağlar. Bu yeni yapıya uyum için bir adaptasyon süreci başlar. Bu adaptasyon süreci kadın ve erkek arasında bir sınıf ayrımına yol açar; erkek daha üst sınıf olarak görülürken kadın alt sınıf olarak toplumda yerini alır. Sosyal ve teknik gelişmeyle birlikte temel ihtiyaçlarını karşılayan insan grupları için 2 önemli unsur ön plana çıkmaktadır; mülkiyet ve boş zaman. “Mülkiyetin ilk örneği, kadının topluluğun güçlü erkekleri tarafından sahiplenilmesi ile başlar ve ilerleyen zamanlarda, eşyaların giderek mülk haline gelmesi ile toplumlarda mülkiyet sistemi yerleşik hale gelir. (Veblen, 1994, sy. 31-32). Mülkiyet maddi varlığın önemli bir göstergesi olarak yerini alır ve sahibinin gücünü göstermek üzere kullanılır. Bireysel mülkiyetin artması bireylerin rekabetini arttırmakta, gelişen bu rekabet ile birlikte sosyal sınıflarda ayrışma hızla artmakta, bazı görevler daha alt sınıfa ait olarak görülürken bazı işler üst sınıflar tarafından sahiplenilmektedir. Yaşanan bu farklılaşma toplumda “Aylak” sınıfı oluşturur.

Veblen'e göre maddi gücü göstermenin en etkili yolu aylaklık ve gösterişli tüketimdir. (Veblen, 1994, sy. 67) İlkel toplumlarda ikincil fayda henüz baskın rol oynamadığından klasik iktisat teorilerinde betimlenen bencil ve rasyonel insanın kararları bu dönemdeki insanla örtüşmektedir.

Teknolojide yaşanan büyük gelişmeler ile iletişim kolaylaştıkça, toplumlar arası etkileşim artmış bunun sonucunda da insanların her zaman taşıdıkları içgüdüler (özelikle rekabet) kendini göstermeye başlamaktadır. Maddi yaşam standardında yaşanan hızlı gelişim ile bulunduğu toplumdan üstün olmak ve yaşadığı çevrede saygın bir birey olarak yer almak isteyen insanlar için ikincil talepler daha ön plana çıkmaktadır.. Bu değişim ekonomik ve sosyal hayata da bir etki yaratır. Özellikle gelişmiş toplumlarda teknoloji ile birlikte veri yoğunluğunun giderek artması ve insanların karar verme süreçlerinde kısıtlı zaman nedeniyle insan kapasitesi giderek sınırlı hale gelmeye başlamaktadır. Bencil ve rasyonel varlık olarak tanımlanan birey için karar verme süreci eskisi kadar kolay değildir çünkü bir durumu bütünüyle analiz edebilmek için yeterli eğilim, zaman, enerji veya algısal kaynağı olmayan insan; birincil taleplerin yanı sıra içgüdülerini temel alarak, bulunduğu toplumun kültürü ve değerleriyle harmanladığı eğitim ve deneyim sürecine göre bazı kararlar almak durumunda kalmaktadır. Özellikle problemin büyüklüğü ve karmaşıklığı arttıkça, bireyler zaman baskısını daha güçlü olarak hissettikçe ve bilgi her zaman doğru ve eksiksiz olmadığında insanların karar verme süreçleri giderek zorlaşmaktadır. Bu noktada insanlar ikincil faydayı maksimize ederken bazı sezgisel yaklaşımlar ve psikolojik mekanizmalardan faydalanmaktadır. Mevcut literatürde birçok sezgisel yaklaşım ve psikolojik mekanizma olmakla beraber bu tezde özellikle Veblen'in gösterişli tüketim kavramı ile ilişkilendirilen sezgisel yaklaşım ve psikolojik mekanizma işlenmektedir. Bunlar otoriteye itaat, çapa ve ayarlama, bulunabilirlik kısayolu, ilişkilendirme ve sinyal vermedir.

Veblen'in tanımladığı içgüdüler insanların varoluşundan itibaren aynı ekseninde devam eden ve daha çok kıskançlık ve rekabet içeren duygulardır.

Bu içgüdüler toplumların gelişerek daha bütünleşik yapılara ulaşması ile güç kazanmakta ve insanların davranışlarına yansımaktadır. Yarı-barışçıl kültür dönemi ile başlayarak modern insana kadar uzanan süreçte bu içgüdülerle gelişen bireyler; toplumun rekabet unsurlarına göre davranışlar sergilemektedirler. Bu rekabet unsurları arasında saygınlık, sınıf ayrımlarına bağlı olarak oluşan toplumsal statü ve itibarın önemli bir göstergesi olarak kabul edilen tüketim bulunmaktadır

Daha önce de bahsedildiği gibi Veblen'e göre öykünme karar alma mekanizmalarında çok önemli bir rol oynamakta ve gizli faydanın temelini oluşturmaktadır. Buna göre insanların gizli faydanın amaç fonksiyonunda maksimize etmeyi çalıştıkları kıskandırma duygusudur. Veblen, Aylak Sınıfın Teorisi (1899) eserinde insanları öykünme duygusunu iki şekilde gerçekleştiğini öne sürmektedir; buna göre insanlar bilgilerini, görgülerini ve sosyal statülerini yaşam tarzlarında sağladıkları rekabetle belli ederken, sosyal öykünme, diğer yandan saygınlıklarını ve toplumdaki üstün konumlarını daha maddesel olan maddi öykünme ile kanıtlamaya çalışmaktadırlar. İnsanlar, sosyal ve ekonomik çevrelerine üstün konumlarını kanıtlarken ve onlardan onay alırken, yaşadıkları toplum tarafından statü ve saygınlık olarak kabul görmüş olgulara sahip olmaya ya da tüketmeye çalışmaktadırlar. Dolayısıyla insanlar sunulan ürünler ve hizmetlerden statü ya da saygınlık göstergesi olduğu düşünülenleri tercih ederken bir karşılaştırma yapmak durumundadırlar. Çünkü insanoğlunun her hangi bir kavramın, ürünün, ya da servisin değerini belirleyebilen bir değer ölçeri bulunmamaktadır. Bu nedenle insanoğlu; çevresi ve yaşadığı toplumda kabul görmüş değerlendirmeler ile kavramları ölçmekte ve değerini belirleyebilmektedir. (Cialdini, 2001, sy. 126)

Bu “sürekli karşılaştırma” olgusu bir gerekliliğin ötesinde Veblen'in de belirttiği gibi bir içgüdüdür. Rekabeti temel alan bu içgüdü insanların çevrelerindeki olguları karşılaştırmasının yanı sıra kendilerini de bulundukları sosyal ve ekonomik çevre ile karşılaştırmalarına neden olmaktadır. Bu

karşılaştırma zamanla toplumda bazı rekabet ölçütlerini oluşturmakta ve kalıplaşan bu ölçütler tüm sosyal sınıflar için birer yol gösterici konumuna geçmektedir. Rekabet unsuru insanların karar alma mekanizmalarında ikincil faydaya etki eden ana unsur olarak karşımıza çıkmaktadır. İnsanların yaptığı bu izafi karşılaştırma bireylerin sosyal ve ekonomik çevreleriyle yaptıkları karşılaştırma ile sınırlı kalmamaktadır: İnsanlar aynı zamanda sunulan hizmet ve ürünleri de karşılaştırmaktadır. Buna göre insanlar karar vermek için bir referans noktası (çapa) seçmekte ve buna göre bir ayarlama yapmaktadırlar. İnsanların karşılaştırma yapmalarını sağlayan psikolojik mekanizmaya çapa ve ayarlama denilmektedir. (Ariely, 2008, sy. 29)

İnsanların yaşadıkları toplumdaki düşünceleri ve yargıları benimsedikleri ve oluşan bu değer yargılarına göre de seçimler yaptıkları görülmektedir. İnsanların değer yargılarını kendi değer yargıları olarak benimsemelerini sağlayan psikolojik mekanizma otoriteye itaattir. Buna göre, insanlar belli konularda belli kişileri uzman olarak görmekte ve onların davranış biçimleri ya da inanışlarının yol gösterici olduğuna inanmaktadırlar. Veblen'in çizdiği sosyal yapıda ise otorite figürünü aylak sınıf oluşturmaktadır. Diğer tüm sosyal sınıflar aylak sınıfın çizdiği sınırlar dahilinde tüketim yapmaya, bir üst sınıfa geçmek için bu sınıf tarafından ortaya konan yapılara uyum sağlama ihtiyacı hissetmektedir.

Veblen, Aylak Sınıfın Teorisi (1899) eserinde tüm sosyal sınıflar bir üst sınıfın değer yargılarını, beğenilerini ve tarzlarını kendilerininmiş gibi benimsemekte ve üst sınıfın yaşam biçimlerini örnek almaktadır. Steven D. Levitt ve Stephen J. Dubner (2009) tarafından gerçekleştirilen araştırmaya göre, üst sosyal sınıflarda popüler olan bebek isimleri ilerleyen yıllarda alt sosyal sınıflarda kullanılmaya başlamaktadır. Üst sosyal sınıf ise bu isimlerden vazgeçerek farklı bebek isimlerini yönelmekte, alt sosyal sınıflar ise yıllar içerisinde bu isimler ile aşına olarak bebeklerine bu isimleri vermektedirler.

Tezde incelenen bir başka psikolojik mekanizma ise ilişkilendirme & sinyal vermedir. İnsanların sosyal normlara ayak uydurmaları özellikle küreselleşmenin ve rekabetin arttığı günümüz koşullarında giderek zorlaşmaktadır. Bu nedenle insanlar bazı ürün ve hizmetleri geçmiş deneyimlerinden, kültürel öğretilerinden ve üst sosyal sınıfların tercihlerinden yola çıkarak statü ve saygınlık gibi kavramlarla eşleştirmekte (ilişkilendirme) ve bu ürünlerin tüketilmesini saygınlık ve statü ile bağdaştırmaktadır (sinyal verme). Bu kavrama göre gizli faydayı maksimize etmeyi amaçlayan insan, toplum tarafından saygın ve prestijli kabul edilen eşyaları tüketmekte, yaşam tarzını bunlara göre belirlemektedir. Philips (2001) tarafından yapılan araştırmaya göre gösterişli turizm merkezleri olarak kabul edilen Las Vegas, New York City, Los Angeles, Miami, Washington ve Boston şehirlerinde tatil yapan kişilerin çevreleri ile tatil deneyimlerini paylaşmaya daha hevesli oldukları görülmektedir. Ayrıca araştırmaya katılan denekler gösterişli tatil merkezlerinde tatil yapmanın saygınlık ve itibar sinyali verdiğini vurgulamaktadır. (Philips, 2001, sy. 583). İlişkilendirme & sinyal verme mekanizması Veblen'in giyim konusuna yer verdiği bölümlerde görülmektedir. Veblen'in özellikle giyim konusu üzerinden ilerlemesinin sebebi ise kişinin maddi durumunu ortaya koymasının birçok yolu olmasına rağmen kıyafetler ve takı gibi giyim unsurlarının daha göz önünde olmasıdır. Çünkü Veblen'e göre giysi yalnızca gösterişsel olarak pahalı olmakla kalmayıp aynı zamanda güncel olmalıdır. Giyinmenin kabul edilmiş en son tarzı olarak tanımlanan moda ile tüketiciler sezondan sezona sürekli değişen ürünleri almak durumunda ve bunun için sürekli bir harcama yapmaktadırlar Aylak Sınıf'ın arınmış zevkleri ve beğebileri ile belirlenen modaya ayak uydurmak insanların bulundukları sosyal ve ekonomik çevrede kabul görmelerini sağlamakta hem de kabul gören zevk ve itibar standartlarını tüketmektedirler. Sonuç olarak, insanların modayı sürekli olarak takip ederek müsrif harcamalar yapması toplumda otorite olarak kabul edilen aylak sınıf'ın zevk ve beğenilerini kendilerininmiş gibi benimseyerek onu alışkanlık haline getirmeleri ve aylak sınıfa itaat etmeleridir. Moda kavramının son derece ön

planda olduđu günümüz toplumunda pazarlama ve satış taktiklerinin moda üzerinden insanların seçimlerini etkilemeyi amaçladığı görülmektedir.

İncelenen son kavramsal sezgi ise bulunabilirlik kısayoludur. Buna göre bir senaryo ya da bir olay ne kadar kolay akla geliyorsa insanlar tarafından gerçekleşme ihtimali daha yüksek kabul edilmektedir. (Tversky, 1974, sy.451) Veblen'e göre Aylak sınıf artırılmış zevklere sahip bir toplumsal kesimdir ve yemenin, içmenin vs. niteliksel gereksinimlerini bilen yine bu sınıftır. (Veblen, 1994, sy. 59) Bu sınıfın yaşam tarzı ve tercihleri günümüzde daha göz önünde ve ulaşılabilir olması nedeniyle alt sınıflar tarafından bir reçete olarak kabul edilmektedir. Sonuç olarak günümüz tüketim toplumu, tüketmeseler dahi bir markanın sunduđu farklı ve özel ürünleri bir üst sınıfın seçimleri ile özleştirmekte ve daha kolay aklına getirerek karar verirken bulunabilirlik kısayolunu kullanmaktadır.

Tezin ana konusu olmamakla birlikte gizli faydanın pazarlama tarafından kullanıma ilişkin olarak da yapılan araştırma ve çalışmalara da yer verilmektedir. Örneğin; insanların ürün seçimi konusunda marka algısının önemini araştırmak amacıyla Ralph Allison ve Kenneth Uhl tarafından gerçekleştirilen çalışma ile insanların ürünlerin fiziksel özelliklerinden çok, markaların pazarlama faaliyetleri sonucunda üzerlerinde yaratılan etkiye göre seçim yaptığı ortaya çıkmaktadır. Buna göre markaların başarılı ya da başarısız olmaları ürünün kalitesinden ziyade markanın sunduđu ürünlerin marka imajına bağlı olmaktadır. Bu durum markaların pazarlama faaliyetleri ile marka algıları üzerlerinde yarattıkları etkilerin tüketicilerin karar mekanizmalarını etkilediklerini ortaya koymaktadır. Buna göre tüketiciler ürün ya da hizmet satın alırken karar alma mekanizmalarının bu algılardan etkilendiği bu da rasyonel davranışların önüne engel olduğunu göstermektedir. Böylelikle markaların pazarlama faaliyetleri tüketicileri rasyonaliteden uzaklaştırmakta; tüketiciler karar alırken alışkanlıklarını ve içgüdüleri kullanarak bazı kısa yollar oluşturmaktadır. Toplumda kabul görmüş, üst sınıfların zevk ve beğenilerini tatmin eden ürün ve hizmetler

karar alma sürecinde daha çabuk hatırlanmakta, bu sayede ön plana geçerek daha çok tercih edilmektedir.

Yapılan diğer araştırmalar tüketicilerin bir üründen haz alma duygusu aslında ürünün sağladığı yarardan çok sağladığı itibardan oluşmaktadır. Markalar da bu durumu kullanarak marka algısını tüketicilerin seçiciliğini biçimlendiren ve sürdüren kısıtlayıcı bir norm olarak ön planda tutmaktadır. İnsanların düşünme yapıları, içgüdüleri ve alışkanlıkları üzerinden seçimlerinin manipüle edilebildiği birçok seçenek bulunmaktadır.

Gerçekleştirilen başka bir deney ise ürün çeşitliliğinin ürün çeşitliliği ve markanın uzmanlık derecesi üzerinde olumlu etkisi bulunduğunu ortaya koymaktadır. (Berger, 2007, sy. 27) Tüketiciler ürün çeşitliliğinin fazla olduğu durumda sezgisel kestirmelerden yararlanarak karar almakta; ürün çeşitliliğini marka algısı, ürün kalitesi ve uzmanlık ile örtüştürmektedirler. Aynı zamanda bir markanın ürün çeşitliliğini arttırması daha fazla segmente hitap etmesini sağlamaktadır. Günümüzde de markalar ürün yelpazesini geniş tutarak tüketiciler üzerinde yaratılan bu algıları pekiştirmektedir. Markalar tarafında sunulan özgün ya da egzotik ürünler, tüketiciler tarafından daha az talep görse bile insanların markaya karşı algısını etkilemektedir. Örneğin; moda sürekli olarak değişmekte, sezondan sezona farklılık göstermektedir. İnsanların modaya olan bağlılığını gözlemleyen markalar, daha fazla harcama yapılmasını sağlamak için mevcut trendleri sürekli olarak değiştirmektedirler. İnsanların standartlara uygun yaşama içgüdüğü ve gösteril alışkanlıkları nedeniyle de modaya uyma çabası sürekli satışı beraberinde getirmektedir. İncelenen deneyler ve araştırmalar tezde yer verilen gizli fayda kavramının pazarlama tarafından da kullanıldığını ve pek çok farklı uygulaması olduğunu ortaya koymaktadır.

Sonuç olarak, Veblen'in *Aylak Sınıfın Teorisi* (1899) eserinde ortaya koyduğu fikirler insan davranışlarını anlamamız için aydınlatıcı bir yol gösterici olmuştur. Veblen'in fikirlerinin psikoloji ve davranışsal ekonomi gibi farklı dallarla bütünleştirilerek karar mekanizmaları altında yatan sebeplerin ortaya

ıkarılması insan davranışlarının modellenenebilmesi ve tahmin edilebilmesi iin gereklidir. Bu kapsamda ortaya atılan gizli fayda kavramı Veblen'in ikincil fayda kavramı ile psikolojik mekanizmalar ve kavramsal sezgileri harmanlayan yeni bir yapıdır. Bu iki farklı olgu ve literatürün bir araya getirilmesiyle sadece gösterişli tüketimein nedeni deęil, karar mekanizmaları da ortaya konmaktadır. Özellikle markaların pazarlama uygulamaları üzerine yapılacak detaylı bir alıřma ile bu literatür geliştirilebilir.

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### YAZARIN

Soyadı : Kurşuncu

Adı : Aslı

Bölümü : İktisat

**TEZİN ADI** (İngilizce) : Thorstein Veblen's "Hidden Utility"

**TEZİN TÜRÜ** : Yüksek Lisans

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