Counterfeits, Knockoffs and Conspicuous Consumption: A Model of Counterfeits and Status Goods

Abstract

What determines why some consumers buy counterfeit goods? Our economic model incorporates bandwagon and snob effects into the consumers’ purchases of both authentic and counterfeit status goods. The population is divided into two groups, Elites and Seekers, where Elites want to consume a product that helps distinguish themselves from the common Seekers. The Seekers want to buy status by appearing to consume the same product as the Elites. What if there is also a counterfeit status product available at a dramatically lower price that some Seekers might buy? Counterfeits may be recognized as fakes, humiliating the Seeker and resulting in a violation of the law of demand. Rational expectation equilibrium demand functions are developed for both groups and supported in a laboratory experiment.