

Status Over Sense: Analyzing the Role of Social Status in College Students' Financial
Decisions

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Abstract

For many young adults, college is the first time they experience financial independence. This newfound autonomy often leads to irrational financial decisions when it comes to their impulsive desires, such as begging their parents for the latest M series or piling up credit card debt for the newest Supreme drop. Some college students may take these financial behaviors to the extreme, prompting the question: why do some college students make big expenditures for non-necessary items? Humans have always been social creatures wanting to form social bonds and seek social connections with one another. This is no exception when it comes to the modern college student. The social dynamics of college encourage students to want to seek belonging. Clubs, sports teams, and student government are all appealing to the new student entering college for the first time who has no established social group. At the heart of many students' financial choices is the desire to fit in. My paper proposes that the increase in consumption of non-necessary items leads to the maximization of social status. This, in turn, facilitates integration into social groups, highlighting the interplay between consumer behavior and social dynamics in the modern college experience.

I. Introduction

Throughout the ages of history, humans have always been infatuated with social status. In the Middle Ages, those who owned Veblen possessions —luxury items that signaled wealth and prestige — had more social status which granted them greater respect, reputation, and social favor (Snell, 2019). This stratification was evident in the stark contrasts between peasants, who made up most of the regular population and possessed little to no Veblen possessions, compared to merchants, burghers, landowners, and nobles. Their elevated social status afforded them higher social privilege, expanded networking capabilities, and significant political influence. The connection between possessing Veblen items and social status was not limited to the Middle Ages This connection was also evident in civilizations like Ancient Rome, Ancient Egypt, and several

other civilizations, where the possession of rare and expensive items symbolized power, influence, and social status (Cassar, 2024; Dillon & Garland, 2021).

The connection between possessing Veblen items and higher social status can still be seen today. Social media, TV Shows, Movies, and other forms of media frequently depict Veblen items as symbols of success and achievement, perpetuating the idea that material wealth equates to higher social status. While this desire to attain higher social status through the acquisition of Veblen goods spans all age groups, younger generations are particularly vulnerable due to their impressionability. Young people, whose characters and beliefs are still in development, often adopt the ideologies and lifestyles they see glamorized in the media. The current generation of college students, Generation Z (Gen Z), is especially susceptible. Constant exposure to curated portrayals of success they see on social media fosters a desire to mimic the lifestyles of influencers, celebrities, and peers, even if it comes at a high personal financial cost.

For college students, the pursuit of Veblen items to attain social status is particularly concerning. The desire to possess Veblen items during college is not necessary for academic success and their acquisition can serve as a distraction, potentially derailing students from their educational goals, contributing to negative financial consequences. That is why in this paper, Veblen items are considered non-necessary items for college students. Even though Veblen items are considered non-necessary items, some college students still make big expenditures to acquire them in an attempt to elevate their social status within their social circles.

I argue that the behavior of some college students making big purchases on non-necessary items is driven by a desire to increase social status. This behavior then leads students to make systematic mistakes in their utility optimization. To analyze this case, I developed a function that models the total utility a college student derives from consuming both necessary items and non-necessary items, while accounting for present bias through quasi-hyperbolic discounting. This approach seeks to uncover the underlying motivations

behind these financial decisions and their broader implications on the social and economic lives of college students.

II. Seeking Belonging Through Social Status

As many students transition from high school to college, they need new friends or social circles to be a part of. This is due to many high school friend groups having significantly reduced contact or splitting up entirely on account of everyone going on different paths in life. Former high school friends will most likely go to a different college, out of state school, trade school, join the military, or enter the workforce. In contrast, it is easier for college students to maintain and nurture friendships with people within their immediate environment as opposed to long distance relationships. For many, the process of forming new friend groups can feel daunting, leading some students to believe that purchasing non-necessary items to elevate their social status makes it easier to integrate into new social circles and establish a sense of belonging.

To better understand the association between non-necessary items and social status, it is essential to define what constitutes necessary and non-necessary items for college students. Necessary items include expenses critical to a student's academic and personal success, such as tuition, textbooks, rent, school supplies, clothing, electronics, transportation, and hobby-related items. While hobby items are generally categorized as necessary to satisfy basic happiness and personal development, those with exorbitant costs may be reclassified as non-necessary. Non-necessary items, on the other hand, encompass luxury or indulgent purchases such as high-end cars, Veblen clothes, designer accessories, premium electronics, excessive drinking, and frequent costly nights out. In the context of this paper, non-necessary items for college students are largely represented by Veblen goods—items whose high prices signal wealth and prestige rather than utility.

Gen Z makes up the vast majority of currently enrolled college students (Arizona State University, 2022). This demographic detail is particularly important considering that Gen Z is severely influenced by social media. Platforms such as Instagram, TikTok, and YouTube, alongside traditional media like TV shows and movies, often romanticize the

college experience, creating an idealized image of success and lifestyle. This portrayal makes college students highly susceptible to mimicking the glamorized lifestyles they encounter online. Social media influencers and music artists play a pivotal role in shaping Gen Z's perception of social status and material consumption. Peer-like influencers and relatable artists blur the line between aspirational and attainable, making their audiences feel that achieving similar lifestyles is within reach. Hip-hop artists, in particular, significantly influence this generation, as hip-hop remains the most popular music genre among Gen Z in 2024 (Leu, 2024). Gen Z's top favorite hip-hop artists such as Drake, Juice WRLD, Ice Spice, Doja Cat, Travis Scott, Lil Uzi Vert, and Playboi Carti often use social media to showcase their Veblen goods, including designer clothing, luxury cars, and premium accessories. These social media posts reinforce the narrative that owning such items is directly linked to social status elevation and desirability.

This combination of cultural influence, social media exposure, and the innate human desire for social belonging creates a powerful incentive for college students to make big expenditures on non-necessary items. By analyzing these dynamics, this paper seeks to explore the motivations driving these financial decisions and their implications for college students' lives and priorities.

III. Model

When considering the decisions college students make, one would assume they would consistently act rationally, especially within the intellectual environment of higher education. This stems from the idea that college is a place where thoughtful decision-making and intellectual growth flourish. However, this expectation does not align with the reality of some students' financial behaviors. Students have a choice to make during their college journey: whether to be perceived as low status or high status throughout their college experience. Being portrayed as low status is the rational choice as it minimizes expenses, by avoiding consumption of non-necessary items. This choice prioritizes financial prudence and aligns with long-term educational and personal goals. Choosing high status entails significant financial costs, primarily due to the consumption of non-

necessary items designed to signal wealth and prestige. The consequence of choosing high status is even more detrimental to students' future utility should they choose to take out loans to finance the non-necessary items they purchase in the present. This is due to future loan repayments placing a crushing financial burden on students, resulting in lost income that would otherwise cover necessary items. Despite the logical advantages of the low-status choice, a significant portion of the college student population makes the irrational choice of portraying themselves as high status. To capture this dynamic, the model in this paper examines the utility derived from both choices in regards to consumption and social status.

A. Conceptual Assumptions and Model Assumptions

Before diving into the model itself, conceptual assumptions must be listed first to understand key behaviors from the target population. For the first assumption, college is the first time many 18+ year olds are experiencing liberty for the first time in their lives. Because of this they are inexperienced at life in general, thus we assume they are financially illiterate and are more prone to being irrational (Bianco & Basco, 2012). Being financially illiterate and irresponsible with their money increases the probability of consuming non-necessary items. The second assumption is that the majority of college students are in a social setting that can affect them in their decision-making. The influence of social environments can amplify the likelihood of purchasing non-necessary items due to the students' desire to belong and maintain status within these groups. This can occur in groups such as clubs, friend groups, sports teams, fraternities/sororities, student councils, etc. The third assumption is that college students are highly susceptible to peer comparisons. Social interactions within shared environments, such as dormitories, clubs, lecture halls, and extracurricular activities, create constant opportunities for students to observe and evaluate their peers' possessions. The fourth assumption is that the majority of currently enrolled college students are Gen Z. By making this assumption, the model can more accurately address their generational patterns and behaviors surrounding social status. The fifth assumption is that consuming Veblen goods elevates social status. This assumption is grounded in the theory of conspicuous consumption, which explains that

spending on Veblen goods serves as a display of economic power and wealth, thereby elevating social status. The final conceptual assumption is that low status does not signify a student will look poor, it's just deciding to not go with flashy high-cost items, typical of Veblen items. This choice reflects a preference for practicality and financial prudence over the pursuit of social status through non-necessary items. These conceptual assumptions help establish the framework for the model, shedding light on students' drive to keep up or surpass others in terms of material displays achieved by consuming non-necessary items to elevate their perceived social status.

Now that the conceptual assumptions have been established, it is imperative to describe the model assumptions to understand specific variables. The first assumption is that choosing low status yields no utility from social status. This is because exclusively consuming necessary items provides no social status benefits, as non-necessary items are key to signaling social status. The second assumption is that students with no savings choose to consume non-necessary items or save. Students who save will choose to be perceived as low status, while students who consume non-necessary items with no savings will choose to be perceived as high status. Students who choose to save opt for low status because saving prioritizes long-term financial stability over immediate social rewards, whereas students who consume non-necessary items with no savings prioritize the opposite. The Final model assumption is that students with no savings who consume non-necessary items will rely on loans to finance their purchases of Veblen goods.

B. Expected Outcomes

From what is understood about the intellectual capacity of college students and the higher education environment, it would seem reasonable to expect students to make the rational financial decision. However, some college students choose the irrational path of pursuing high status through significant consumption of non-necessary items. This behavior illustrates present bias, where immediate social rewards are prioritized over the pursuit of long-term financial stability (Laibson, 1997; Phelps and Pollak, 1968). Social pressures and the desire to belong play a central role in drive these decisions. The allure of

status symbols like luxury brands and designer clothes often outweigh rational considerations, especially when amplified by peer comparisons and social media influences. Ultimately, the expected outcome reveals how emotional and social factors distort students' priorities, leading them to act against their best long-term interests.

C. Mechanisms Influencing Social Status

College students' behavior surrounding this topic can be analyzed by a utility function using quasi-hyperbolic discounting.

Utility Function

$$U_0 = u_0(c_n, c_v) + u_0(socst) + \beta\delta u_1(c_n, c_v) + \beta\delta^2 u_2(c_n, c_v)$$

This utility function illustrates how college students discount the future in favor of the present at time 0, U_0 . In this model, three time periods are defined: u_0 representing the present; u_1 corresponding to the first future loan repayment, and u_2 representing the second future loan repayment. Consumption(c) being how much they spend on necessary (c_n) or non-necessary items (c_v), where v denotes Veblen goods. Social status($socst$) represents perceived social status, driven by c_v , the consumption of non-necessary items. In this model, social status is directly tied to the consumption of such items. β represents present bias parameter, ($0 < \beta \leq 1$), which indicates how much college students care about the future compared to the present. δ denotes the discount factor for future utility ($0 < \delta \leq 1$). Each choice is subject to a budget constraint, which limits their total spending.

There are two choices in this model, structured as choice A or B. Choice A is to purchase non-necessary items, where students choose to be perceived as high social status. Choice B is to not purchase non-necessary items, where students choose to be perceived as low social status.

Choice A: Purchase non-necessary items (high social status)

$$U_0^A = u_0(c_n, c_v) + u_0(socst) + \beta\delta u_1(c_n, c_v) + \beta\delta^2 u_2(c_n, c_v)$$

Budget Constraint:

$$u_0: loan + y = P_n * X_n + P_v * X_v$$

$$u_1: y - R = P_n * X_n \text{ (1st Repayment)}$$

$$u_2: y - R = P_n * X_n \text{ (2nd Repayment)}$$

In choice A, utility comes from the consumption of necessary items (c) and social status, influenced by purchasing Veblen goods (non-necessary items). Students who decide to be perceived as high status overconsume non-necessary items to gain utility from social status in the present. Social status is excluded from future time periods because, while its influence is strongest in the present, its significance diminishes to the point of being negligible. c_v persists in future periods, even when students stop purchasing non-necessary items, as they continue to derive utility—albeit diminished— from the non-necessary items acquired in the present. The choice to be perceived as high status is considered irrational as students fail to consider future financial consequences. This choice reflects present bias through quasi-hyperbolic discounting, where immediate social benefits are prioritized over long-term financial stability. The core concept of the model is demonstrated by students' overvaluation of immediate social status gains while undervaluing future consequences (debt, financial stress).

The budget constraint for choice A displays three time periods: the present (u_0), 1st repayment (u_1), and 2nd repayment (u_2). In the present period (u_0), the budget reflects the total amount students have available to spend including income (y) and *loans*. *loans* are taken out by students who cannot afford non-necessary items but wish to finance them to acquire these items immediately. With this budget constraint, students purchase necessary items and non-necessary items. Here, X_n represents the quantity of necessary items, while X_v represents the quantity of non-necessary items. Correspondingly, P_n indicates the price of necessary items, and P_v signifies the price of non-necessary items. In the 1st repayment period (u_1) and the 2nd repayment period, students must start making

repayments (R) on the loans they took out in the present period (u_0). Making repayments reduces their future income, thereby diminishing the utility they could have otherwise utilized.

Choice B: Do not purchase non-necessary items (low social status)

$$U_0^B = u_0(c_n) + \beta\delta u_1(c_n) + \beta\delta^2 u_2(c_n)$$

Budget Constraint:

$$u_0: y = P_n * X_n$$

$$u_1: y = P_n * X_n$$

$$u_2: y = P_n * X_n$$

For students choosing to be perceived as low status, the utility derived from (*socst*) is equal to zero, as no consumption of non-necessary items occurs; their consumption is limited solely to necessary items. The budget constraint for choice B displays three time periods: the present (u_0), future period (u_1), and far future period (u_2). With there being no consumption of non-necessary items, there is no need for *loans* to finance them, as well as no repayments to reduce income (y) in future periods. This results in the budget constraint being the same for all three time periods in choice B. Choosing low status is considered the rational choice because it avoids unnecessary expenses as well as aligns with long-term goals and directs focus on education.

D. Why Do Students Not Think About the Future

The irrationality of some college students deciding to choose being portrayed as high status can be attributed to them not considering the future. Many young adults prefer to live in the moment than think about a future that potentially holds no value to them. The immediate social reward of increased social status overpowers the need to think about what lies ahead. This can stem from an array of feelings Gen Z is experiencing, especially loneliness. Gen Z being the loneliest generation, compared to all past generations that have come before it, are more likely to have high social media use and risky behaviors (Bowler, 2020). High social media usage has led Gen Z to the harmful belief that possessing

Veblen goods makes it easier to form social connections. The association between material wealth and social bonds can drive young adults to detrimental amounts of debt from purchasing Veblen goods. Their struggles with loneliness and social isolation further amplify their susceptibility to the glamorized portrayals of wealth and status frequently showcased by influencers on social media. This belief is reinforced by the repetitive social media posts that idealize material possessions as a pathway to social status. The glamorization of material wealth is displayed to boost social status, which can attract the attention of acquaintances, peers, potential friends, and potential partners. Risky behavior by Gen Z isn't just tied to substance abuse, risky financial behavior driven by social isolation to seek social connections can also cause negative financial and psychological consequences to these young adults. Gen Z isn't just affected by social isolation but is also going through a mental health crisis which adds reasons to not care about the future (Colvin, 2023). This unhealthy ideology of associating material wealth with higher social status, paired with social isolation and poor mental health, has caused Gen Z to become hopeless about the future. Problems such as impediments from the COVID-19 pandemic, climate crisis, and mental health crisis has created a preference for Gen Z to enjoy life in the moment than think about the long-awaited future (Kaplan, 2022). Hopeless about the future and desperate for connections, what is future debt compared to the immediate relationships that can be attained within the present.

IV. Evidence

The economic model presented in this paper—examining college students' decisions to pursue either high or low social status through consumption—is supported by several formerly published literature pieces on consumption and its relationship to social status, self-esteem, and consumer behavior.

In a journal article published by *The American Economic Review* the concept of 'Veblen effects' is expanded on (Bagwell et al., 1996; Veblen, 1899). This effect describes how individuals consume goods not solely for their intrinsic utility but as a means to signal wealth and social status. Their findings highlight how higher consumption of luxury goods

is often driven by the desire to showcase affluence and attain higher social standing within peer groups. This directly aligns with the high-status utility model in this paper, where students derive additional utility from the social status conferred by non-necessary items like Veblen goods. For college students, this effect manifests as irrational spending on designer clothing, premium electronics, and other luxury items to achieve perceived social status among peers.

Related research has expanded on the idea of ‘status consumption’ by developing and validating a scale to measure the extent to which individuals purchase goods to enhance their social image (Eastman et al., 1999). Their research confirms that the motivation to appear more prestigious is often tied to social comparison. For college students, this means striving to avoid being perceived as low status within highly social and competitive college environments. The economic model’s differentiation between rational low-status decisions and irrational high-status choices reflects the behavioral trends identified in their study, where social pressures frequently outweigh financial prudence.

Through further study on the works of Thorstein Veblen and Pierre Bourdieu, it is argued that consumption behaviors are not only economic choices, but also deep social acts aimed at maintaining or improving one’s position within social hierarchies (Trigg, 2001). According to Trigg, conspicuous consumption becomes a mechanism through which individuals align themselves with aspirational groups and distance themselves from those of lower status. This concept supports the economic model’s emphasis on the added utility derived from social status, showing that high status students are willing to incur significant financial costs — often irrationally — to signal their alignment with higher social circles, which can possibly lead to more upscale networking possibilities.

As for the financial behaviors of college students, a link has been established between risk-taking tendencies and problematic financial (Worth et al., 2010). Their research highlights that students who engage in sensation-seeking behaviors are more likely to take financial risks, such as accruing debt for non-necessary purchases. This directly ties into the high status model, which assumes that college students prioritize

immediate social rewards (social status) over the long-term consequences of financial instability. The study further underscores the importance of quasi-hyperbolic discounting in the model, as students disproportionately value short-term social gains while undervaluing future debt and stress.

The economic model proposed in this paper suggest a causal relationship between the consumption of non-necessary items and the perceived enhancement of social status among college students. Support is provided by demonstration of status consumption is driven by social comparison, particularly in competitive environments like college (Eastman et al., 1999). Support is also found in the theory of Veblen Effects by Thorstein Veblen and many more economists who further supplemented the theory (Bagwell et al., 1996; Veblen, 1899). The model's causal interpretation is supported by evidence, but it is not definitive. Future research should explore alternative factors.

V. Alternative Explanation

An alternate explanation that addresses the research question 'why do some college students make big expenditures on non-necessary items?' is that college students do not understand they have to pay back the loans or the potential magnitude of future loan payments. Many students enter into loan agreements without fully comprehending the long-term financial implications, such as interest accumulation and repayment timelines (Bianco & Basco, 2012). College students tend to significantly underestimate or overestimate the length of their debt, which can distort their decision-making regarding borrowing and spending (Lewis & van Venrooij, 1995). This poses significant financial risks, as students do not know their future utility or the financial strain they may face. Consequently, they may overcommit to loans, believing the repayment process will be more manageable in the future (Eskilson & Wiley, 1999). This misjudgment can lead to debt that becomes overwhelmingly burdensome, restricting their ability to cover necessary items in the future.

VI. Conclusion and Outlook

The findings presented in this paper illustrate the intricate relationship between social dynamics, consumer behavior, and financial decision-making among college students. The pursuit of Veblen goods as a means to attain social status highlights the power of social pressures in shaping behavior, often at the expense of rational financial choices. Although this behavior is irrational, it is still an understandable response from a young college student to do whatever they can to make it easier to fit in. The transition from high school to college leaves many students with the need to integrate into new social circles. Gen Z's heightened exposure to social media and its associated pressures further amplifies this tendency, making them more prone to associating material possessions with self-worth and social acceptance.

However, this phenomenon also raises concerns about the broader implications for students' financial health and mental well-being. The accumulation of debt and the potential distraction from academic and personal goals pose risks that can extend far beyond the college years. These patterns suggest an urgent need to teach young adults budgeting, debt management, and critical thinking about social influences on consumption. Looking ahead, future research could expand on this analysis by exploring interventions aimed at reducing the prevalence of conspicuous consumption among students. For example, programs that promote alternative pathways to social belonging. Additionally, further exploration of how social media algorithms and influencer marketing contribute to this behavior could inform policies that mitigate their impact on impressionable groups.

In conclusion, while the irrational spending habits of college students may be driven by social and psychological factors, understanding these behaviors is crucial for developing strategies to support their financial well-being. By addressing the underlying drivers of this phenomenon, stakeholders in education, policy, and mental health can help foster a generation of students who are better equipped to navigate the complexities of modern social and economic pressures.

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