Consumer Demand with Social Influences Evidence from an E-Commerce Platform

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For some kinds of goods, rarity itself is valued. "Fashionable'" goods are demanded in part because they are unique. In this paper, we explore the economics of rare goods using auctions of limited-edition shoes held by an e-commerce platform. We model endogenous entry and bidding in multi-unit auctions and construct demand curves from realized bids. We find that doubling inventory reduces willingness to pay by 7-15%. From the producer perspective, ignoring the value of rarity leads to substantial overproduction: auctioned quantities are 82% above the profit-maximizing level. From the consumer perspective however, the negative spillovers of restricting quantity more than offset the benefits of rarer goods.