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Journal of Economic Psychology 22 (2001) 745–772

JOURNAL OF
**Economic
Psychology**

www.elsevier.com/locate/joep

Fashions, habits and changing preferences: Simulation of psychological factors affecting market dynamics

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Received 30 October 2000; received in revised form 18 June 2001; accepted 3 July 2001

Abstract

Markets can show different types of dynamics, from quiet markets dominated by one or few products, to markets with constant penetration of new and reintroduced products. This paper explores the dynamics of markets from a psychological perspective using a multi-agent simulation model. The behavioural rules of the artificial consumers, the consumats, are based on a conceptual meta-theory from psychology. The artificial consumers have to choose each period between similar products. Products remain in the market as long as they maintain a minimum level of market share, else they will be replaced by a new product. Assuming a population of consumats with different preferences, and social networks, the model simulates adoption of new products for alternative assumptions on behavioural rules. Furthermore, the consequences of changing preferences and the size of social networks are explored. Results show that the behavioural rules that dominate the artificial consumer's decision making determine the resulting market dynamics, such as fashions, lock-in and unstable renewal. Results also show the importance of psychological variables like social networks, preferences and the need for identity to explain the dynamics of markets. © 2001 Elsevier Science B.V. All rights reserved.

PsycINFO classification: 3000; 3920

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JEL classification: D11; E37; M31

Keywords: Social networks; Changing preferences; Consumer behaviour; Lock-in

1. Introduction

In daily life, consumers participate in many different markets. Some markets are stable and are dominated by one product, other markets are very unstable where new products are introduced frequently. Prices alone cannot explain the differences in market dynamics. Social processes appear to play an important role in market dynamics such as fads and fashions. For example, in toy industry, Tamagochi dominated for a brief period among young children, and this fad is disappeared in the same speed as it came. At the time of writing, Pokémon dominates many children's minds. It seems that besides price, also psychological factors have to be taken into consideration to explain diffusion of consumption patterns among social groups.

In this paper, we argue that different types of cognitive processing, changes of preferences, the focus of the need for identity and social networks are important determinants leading to product choice and explaining variations in market dynamics.

This paper is a follow up of Janssen and Jager (1999) which focussed on the dynamics of lock-in. Traditionally, lock-in dynamics or network effects are studied by increasing returns to scale (Arthur, 1994). The consumption of a particular product decreases the costs for other consumers, which increases the likelihood that other consumers also adopt the particular product. A small disturbance in an emerging market that favours one of the products can lead to a lock-in of the product. These increasing returns to scale explain dominance of certain products or technologies such as the traditional examples of the QWERTY keyboard, the VHS videotape standard and the dominance of Microsoft software (Arthur, 1994; David, 1985). Witt (1997) provides an alternative lock-in model in which newly introduced technologies can successfully disseminate in the market when a critical mass of adopters is derived. Such a critical mass might be derived by active marketing strategies. However, these lock-in studies do not explain 'local lock-ins', such as different clothing styles in different groups of society or the choice for a specific brand of cola. Since traditional models assume homogeneous populations,

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