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Cultural Economics and Consumption of Cultural Goods: A Review and Annotated Bibliography

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Abstract: This paper is aiming at reviewing the existing literatures, both empirical and theoretical ones, in the field of cultural economics, as well as providing an annotated bibliography on the theoretical researches about the consumption of cultural goods.

Key words: consumption; cultural goods; preference; cultural economics

1 . Introduction

Since the publishing of *Performing Art-The Economics Dilemma: A Study of Problems Common to Theater, Opera, Music and Dance*, written by Baumol & Bowen (1966), researchers started to turn their attention to the field of economics of art, and later to cultural economics as a whole. Generally speaking, the scope of cultural economics is becoming much broader, although the scope of cultural economics has not yet been defined. UNESCO (2000) proposed that the notion of cultural industries generally includes “printing, publishing and multimedia, audio-visual, phonographic and cinematographic productions, as well as crafts and design”. UNCTAD (2008) classified creative industries into four groups: heritage, arts, media and functional creations, and in turn divided into nine subgroups, namely cultural sites, traditional cultural expressions, performing arts, audiovisuals, new media, creative services, design, publishing and printed media, and visual arts. Beside the economics aspect, the above products also show importance in cultural and social aspects. Enhancing the development of the above cultural industries may be a significant way to protect minor countries’ cultural traits. In this way, it is reasonable to pay attention to the consumption of cultural goods, especially when the above goods show some characteristics that neoclassical demand theory cannot explain well.

The demand analysis in neoclassical theory assumes that the consumption choice is mainly determined by the relative prices subject to the constraint of income; while consumers can order their preference and fully observe the market. However, cultural goods are some kind of “experience goods”. Before consuming them, consumers generally are unable to know whether

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they like them or not, or how high the quality is. Because of this, before making consumption choice, consumers have to search information about the experience from knowledgeable discussant or review from Internet and other resources. In this sense, the consumption decision is influenced by others' opinion, or the consumer will care about the social effects of their consumption decision. Being "experience goods" also suggests that the more the consumption is, the greater the appreciation from it. It means that the experience of consumption may cultivate the consumer's taste. In this sense, the consumers' preference, or tastes, is not fixed, but endogenous.

Among the past half a century, literatures in this field of cultural economics have been experiencing a vigorous expansion. The existing researches involve sociology, public finance, welfare economics, public choice theory, media economics, and so on. In this paper, we, based on the methodology employed, review the empirical research and theoretical research separately. Surprisingly, it seems that the research focuses of each category are quite different.

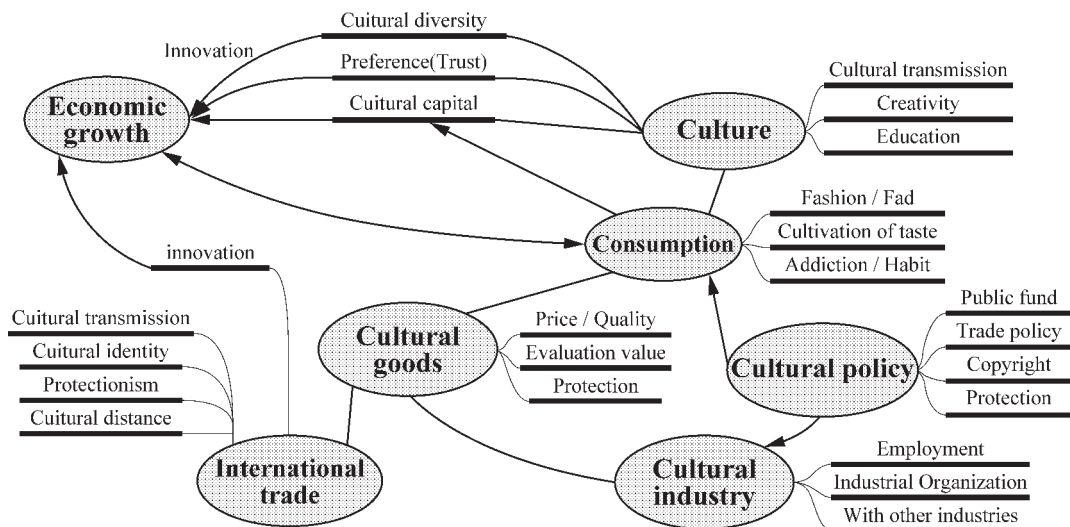
The aim of this paper is to provide an overview of existing researches in the field of cultural economics, as well as an annotated bibliography of the theoretical research on the consumption of cultural goods. Before turning our attention to the empirical and theoretical research related to the consumption of cultural goods, let's take a general look at the cultural economics. M. Blaug (2001) and C. Gibson & L. Kong (2005) have done insightful reviews about this field. While I only organize the updated researches from selected sources^{*}, hoping to offer a general literature map.

Figure 1 presents a simple literature map, in which some exploration in the field of cultural economics are presented. Generally researches take place in three levels. In macro level, the interaction between cultural and economics is studied. How does culture affect economics outcome? Is there any cultural consequence resulted from economic activity? Culture could benefit economic growth through originating innovation (resulted from cultural diversity), forming preference (or something like trust), and accumulating cultural capital. What is cultural capital? D. Throsby (1999) demonstrated that "... cultural capital is an assert that contributes to cultural value. More precisely, cultural capital is the stock of cultural value embodied in an assert...tangible cultural capital assets exists in building, structures, sites and locations endowed with cultural significance and artworks and artifacts... intangible cultural comprises the set of ideas, practices, beliefs, traditions and values which serve to identify and bind together a given group of people..." As for culture itself, researches related to cultural transmission, creativity, and education are also carried out. In industrial level, there are existing studies about the industrial

^{*} The main sources are from Journal of Cultural Economics, the American Economic Review, and others.

organization, the employment and artist, as well as the cultural policy, which is mainly about public fund, copyrights, domestic protection, and cultural trade policy. The remaining researches are mainly about cultural goods. “Should cultural goods be treated differently?” (A. Mas-colell 1999) What determines the consumption choice of cultural goods? How to evaluate its price, quality, and value? What’s the cultural consequence of trade of cultural goods? And what’s the proper international trade policy? These are questions that researchers are working on.

Figure 1 Simple literature map of cultural economics



2 . Empirical Researches

Then, we turn our attention to empirical studies. Since the creative industries are too vast in scope, it is difficult, somehow meaningless, for empirical research to treat cultural industries as a whole. In this circumstance, most empirical researches take place in specific sectors, shown in Table 1.

In Table 1, some typical researches are presented. As for studies related to cultural goods, it seems that most of them are on the consumption of cultural goods, which can be divided into 3 subcategories: 1). Consumption/demand analysis of a specific kind of cultural goods, in a specific circumstance, such as in the United Kingdom (S. Cameron 1990) and Brazil (S. Diniz & A. Machado 2011). 2). Relationship between a specific factor and the consumption choice, such as the perception of quality (F. Abb-Decarroux 1994), expert judgment (J. Ashworth et al. 2010), word of

Table 1 Selected empirical literatures in specific sectors

No	Sector	Empirical Literatures
1	Cinema	S. Cameron (1990)
2	Museum	F. Martin (1994), S. Jaffry & A. Apostolakis (2011)
3	Theater	C. Throsby (1990), L. Lévy-Garboua & C. Montmarquette (1996), D. Urrutiaguer (2002), A. Last & H. Wetzel (2010), I. Redondo & M. Holbrook (2010)
4	Television	S C. Chiang (2001), R. Wurff (2005), Y. Liu (2006)
5	Motion Picture	A. Vany <i>et al.</i> (1997, 1999, 2001), V. Ginsburgh & S. Weyers (1999), A. Marvasti & E. Canterbury (2005), W.D. Walls (2005, 2010), G. Bi & D. Giles (2009), D. Chisholm <i>et al.</i> (2006, 2010)
6	Music	R. Cox. <i>et al.</i> (1995), A. Burke (1996), W. Crain & R. Tollison (2002), J. Montoro-Pons & M. Cuadrado-Garcia (2011), S. Asai(2011)
7	Video game	Y. Aoyama & H. Izushi (2003), J. Cox (2008)
8	Performing Art (Opera)	MV. Felton (1992), F. Abb-Decarroux(1994), S. Krebs & W. Pommerehne (1995), J. Heilbrun (2001)
9	Art	R. Ekelund <i>et al.</i> (1998, 2000), B. Frey & R. Eichenberger (1995), O. Ashenfelter & K. Graddy (2003), J. Frank (2008), J. Nahm (2010), M. Boyle <i>et al.</i> (2010)
10	Publishing (book/novel)	F. Benhamou & S. Peltier (2007), J. Beck (2007), J. Ashworth <i>et al.</i> (2010)
11	Tourism	J. Nicolau (2010), M. Alderighi & E. Lorenzini (2012)
12	Festival	B. Frey(1994), J. Crompton (1997), J. Snowball (2005)
13	Cultural goods	A. Marvasti (1994), S. Diniz & A. Machado (2011)

mouth (J. Beck 2007), and price (J. Nahm 2010). 3). Check a specific theory about consumption, such as rational addiction (G. Becker *et al.* 1991), superstar theory (W. Crain & R. Tollison 2002), disease cost, and cultivation of taste (M. Alderighi & E. Lorenzini 2012).

Some others also studied on the market feature of cultural goods, such as analyzing the quality, estimating the value, determining the price, and evaluating the product diversity. Researches in terms of the industry, for instance copyright, cultural policy, the employment of artist, industrial concentration and divergence, market competition, are also carried out. In the macro level, researchers also shed light on topics alike cultural cluster, regional culture, cultural value, and cultural capital.

3 . Theoretical researches

Compared to the above researches, theoretical studies also work for answering the question of what mainly determines the consumption/demand of cultural goods, but in a quite different manner. Researchers have different opinions. Some people think it is because of endogenous

taste, while others think that the consumption choice is just rational, depending on the past consumption experience. Some think the social pressure effects consumption, while others think consumers just buy cultural goods to show off. Here we provide an annotated bibliography of some related theories (as well as literatures), including theories of consumption capital, superstar, fashion & fads, rational addiction, habit formation, cultivation of taste, learning-by-consuming, and cultural transmission. All these ideas can be categorized into three types: social factor, consumption experience, and cultural transmission.

3.1 Social factor

Superstar theory:

Sherwin Rosen (1981) analyzed the phenomenon of superstardom, wherein small amounts of people dominate a large part of the market. He explained that a small difference in artistic quality induces to large difference in earning while in the condition of low transfer cost and production economies of scale. G. Murphy (2000, social economics) extended Rosen's research by asserting that even without production economies of scale social market also magnify small differences in quality and causes the superstar phenomenon.

Moshe Adler (1985) admitted that consumption accumulates "Consumption capital", a theory developed by Stigler & Becker (1977). The more consumers know about music, the better they can appreciate it. In another saying, the consumption of cultural goods requires knowledge. People gain knowledge through consuming and/or discussing with knowledgeable individuals. Since the searching cost associated with finding a knowledgeable discussant of most popular cultural goods is minimal, the customer is better off buying the "star" cultural goods. Based on this logic, the "star" cultural goods need not possess higher quality. In this sense, popularity depends on something other than quality. His theory insightfully explains why somebody becomes superstar. However, it cannot explain why some superstars decline and new superstars emerge. It can be because of the discount of capital, or the chase of novelty, or the trend of fashion and fads.

Fashion and Fads:

Karni & Schmeidler (1990) proposed that "...consumption of many commodities is, in part, a social activity". He applied the neoclassical consumer theory to explain phenomena including fashion and advertisement, through extend the standard definition of commodity to incorporate the social attributes. G. Becker & K. Murphy (2000) demonstrated how do social factors make fashion and fads happen. They separated consumers into leaders and followers, while leaders intend to be distinguished from followers, who always want to follow the leader's choice. The

interaction between leaders and followers provides dynamics of fashion and fads. What's more, they build a model to explain that when the social pressure is strong enough, the demand for fashionable products increases even when the price increases. T. Veblen (1899/2007) explained the phenomenon of “conspicuous consumption” in his reputable book, *The theory of leisure class*. He argued that many consumption choices are just for showing off.

3.2 Consumption Experience

Consumption capital:

G. Stigler & Becker (1977), in their renowned paper: *De gustibus non est disputandum*, offered an alternative explanation to four phenomena, which are widely believed to be inconsistent with the stability of tastes: Addiction, habitual behavior, advertising, and fashion. Actually, they proposed a hypothesis that “widespread and/or persistent human behavior can be explained by a generalized calculus of utility-maximizing behavior, without introducing the qualification ‘tastes remaining the same’.” In a simpler way, “one may usefully treat tastes as stable over time and similar among people” (A textbook of cultural economics, P. 153). The most interesting part of their model is that consumer maximizes the utility function of “choice” (instead of goods and services), while each choice is produced with market good and service, time, skills, human capital and other inputs. Subsequently, real price of market goods and real income of a household can be substituted by the shadow price of “choice” (determined by the costs of production) and full income (includes the value of “time”). The more investment is previously made, the lower the “time cost” is. Based on these assumptions, they proved that the four phenomena above could be explained by utility-maximizing behavior. This is a breakthrough work that provides rich nutriment (base) for the coming researches. If consumption experience theory works, it seems that this theory cannot explain the sudden conversion of the consumer's choice.

Rational Addiction theory:

Becker & Murphy (1988), based on the research from Stigler & Becker (1977), explored the dynamic behavior of the consumption of addictive goods. In this research, consumers are aware of the addictive nature of the their choice. The full price of addictive consumption goods includes the current monetary price and cost of future addiction. It means that not only past consumption, but also future consumption, affects the current consumption choice. And, if the gain from consumption of goods such as cigarettes exceeds the cost, individual still choose to consume. Their model subsequently becomes a standard approach to model the consumption of addictive goods. What's more, the argument in this paper was supported by G. Becker, M. Grossman, and K. Murphy (1991), who further analyzed the effect of price on consumption of drugs. In their coming paper, BGM (1994), they tested and supported Becker & Murphy (1977)'s

main argument. Like Stigler & Becker (1977), these papers get rid of the qualification: taste remaining the same. Although cultural goods is not commonly believed as addictive goods, the idea of “rational choice” and “adjacent complementary” can be still use in modeling of cultural goods.

Habit formation theory:

Literatures about this theory can be traced back to 1970s. Most research in this field is about the effects of habit formation to the consumption/demand. F. Spinnewyn (1981) discussed “consumer demand under rational habit formation. If consumer tastes change endogenously through habit stock depending on past consumption, the rational consumer will make allowance of the future habit forming effects of current consumption.” Dynan (2000) constructed “a simple model of habit formation implying a condition relating the strength of habits to the evolution of consumption over time.” In this theory, the past consumption endogenously changes taste through the process of habit formation.

Cultivation of taste:

In Stigler & Murphy (1977), individual behavior is explained not by the unobservable differences in taste. However, McCain thought tastes are endogenous. He reflected on the cultivation of taste firstly in his 1979’s paper. He extended the demand theory “to admit cultivation of taste and related phenomena” via building “a linear relationship of the perceived quantity to the physical quantity”, similar with what Becker & Stigler did. McCain (1981) explored the implication of cultivation of taste to the demand of art by building a simple model, with similar setting, however totally different postulates. This paper might provide inspiration for the coming work in fashion & fads in the field of social economics. At least, this work shares some similarities with the work by on fashion and fads. McCain further introduced the game theory (McCain 1986), and bounded rationality (McCain 1995) to his theory of cultivation of tastes. His research suggested that public policy, such as education and subsidy can be a possible way to protect domestic culture because education towards domestic culture may cultivate taste bias to indigenious culture.

Learning-by-consuming:

Just like the theory of cultivation of taste, learning-by-consuming also emphasized that consumers learn their own preference through a process of consumption experience. “...In the process of cultivation of taste, tastes are changed by the experience of consumption.” “...tastes are cultivated through experience, and the experience is to some extent gained in adulthood. Cultivation of taste is learning-by-consuming.” (Brito & Barros 2005) They analyzed the implica-

tion of learning-by-consuming to the dynamics of price and the demand of cultural goods by means of combining the idea of endogenous taste from cultivation of taste theory and the model setting (of adjacent complementary) from the rational addiction theory.

3.3 Cultural transmission

Culture and Cultural transmission

Taking the cultural aspect into account, cultural affect consumption, consumption may also affect culture.

S. Bowels (1998) reviewed that the cultural consequences of markets and other economic institutions. M. Thoenig *et al.* (2009) analyzed the product-based cultural change. The key feature of their theory is that “consumption of differentiated goods endogenously shapes values and drives cultural distance”. Subsequently, “the long-run distribution of preferences and the supply of (differentiated) consumption goods are co-determined at the equilibrium”. Their main result is that “product market integration reduces bilateral cultural distance”. From their insight, it may be valuable to research on the implication of the consumption of cultural goods to cultural transmission if we take the characteristics of cultural goods into consideration. This may be a contribution to the theory of cultural transmission since the standard dynamics of cultural transmission are still the vertical effects from parents and the horizontal effects from peers.

A. Bisin & T. Verdier (1998) studied the inter-generation transmission of cultural traits: preferences for “social status”. Parents transfer their particular cultural traits, status preferences or non-status preference, to their children. Only under some conditions, there is a stable equilibrium wherein both status and non-status preferences co-exist. They induced a mechanism of cultural transmission, the idea of which also is applied in their coming paper.

A. Bisin & T. Verdier (2000) turned their attention to the intergeneration transmission of ethnic and religious traits through socialization and marriage. Minority groups, compared to majority groups, always devote more effort to search for identical mates and socialize their children. In this way, there forms a stable distribution of different traits among the population in the long run. In 2001, they published another paper to further consolidate the same mechanism. A. Bisin & T. Verdier (2009) extended the binary-trait research to multiple-trait one. In 2010, they reviewed the researches in the field of cultural transmission. “...Cultural transmission arguably plays an important role in the determination of many fundamental preference traits (e.g., discounting, risk aversion and altruism) and most cultural traits, social norms, and ideological tenets (e.g., attitudes

towards family and fertility practices, and attitudes in the job market).”

4 . Conclusion

In this paper, I reviewed the existing literature in the field of cultural economics in order to have a general understanding towards this field. An annotated bibliography of related theoretical researches on the consumption of cultural goods was provided as well. Researchers have been working on the questions in three levels: the interaction between culture and economic outcome, the industrial characteristics of cultural industry and the related cultural policy, as well as the consumption/international trade of cultural goods. As for the question of what does determine the consumption choice of cultural goods, beside the determinants from the neoclassical consumer theory, social factors (superstar theory, fashion & fads), the consumption experience (cultivation of taste, rational addiction, learning-by-consuming, and habit formation), and cultural transmission could also affect.

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