

Previous studies on mental budgeting have demonstrated that subsequent spending is negatively related to prior expenditure in the same category (Cheng et al., 2022; Heath & Soll, 1996).

However, evidence from Singapore car sales shows the opposite fact that consumers tend to escalate car purchases when a car's COE is exceptionally high (The Independent, 2013). In this research, we investigate how prior additional fees affect consumers' subsequent choices. We reveal a consumption escalation effect of costly permission fees on subsequent purchases through one field data exploratory study and four lab experiments.

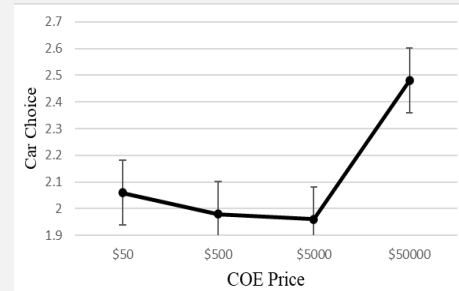
Summary



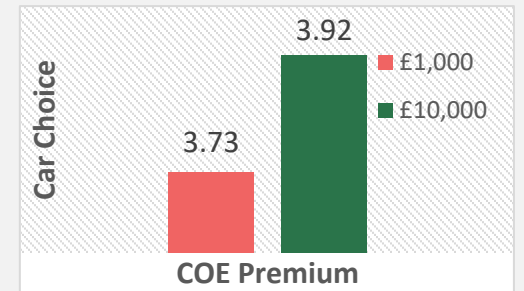
Lab Experiments

Study 2a (Prolific, N = 497) and 2b (Prolific, N = 90) find robust evidence that a large amount of a permission fee leads to an escalation of focal purchase in the context of car purchase by using a controlled behavioral experiment.

Study 2a

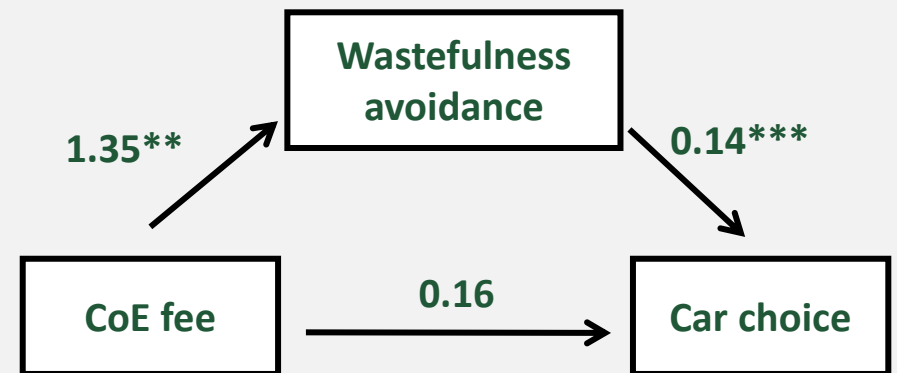


Study 2b



Mechanism

Study 3 (Prolific, N = 196) explored the underlying mechanism of the proposed effect. Based on Arkes and Blumer (1985)'s work, we propose that wastefulness avoidance causes the proposed consumption escalation effect, that is, a costly (vs. cheap) permit fee leads to the upgrading effect on subsequent purchases because they want to avoid wasting and make the great money worthwhile.



Charge More, Spend More

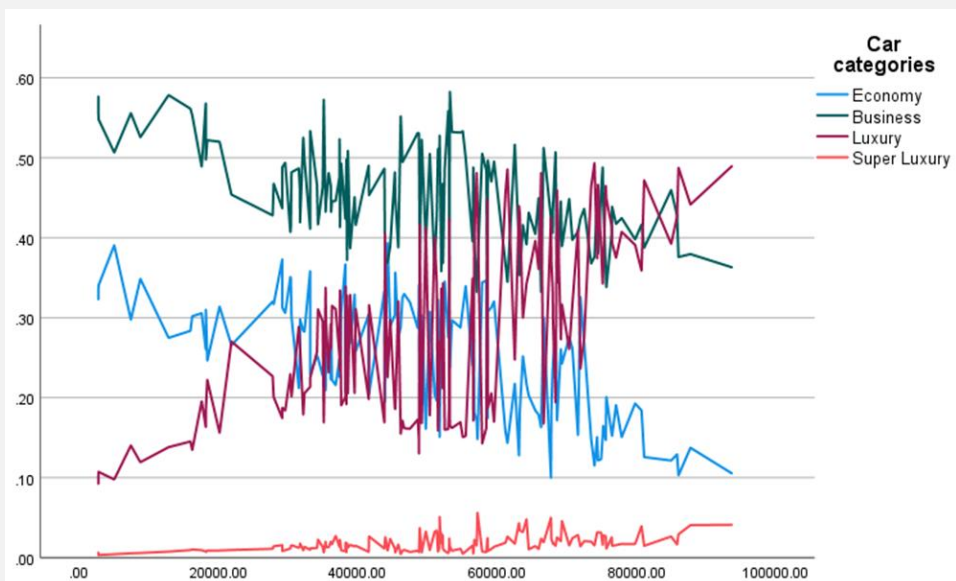
The Consumption Escalation Effect of Over-priced Permission Fees on Consumer Purchase

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Field Data Exploration¹

By analysing historical Certificate of Entitlement (COE) premium and car sales in Singapore from 2009 – 2021, four multiple regression models show that the sales proportion of economy and business car brands are negatively associated with Certificate of Entitlement (COE) premiums ($b = -0.421, p = .000$; $b = -0.613, p = .000$), and the sales proportion of luxury and super luxury car are positively related to COE premiums ($b = 0.601, p = .000$; $b = 0.341, p = .000$).



Studies & Results



Generalization

Study 4 (Prolific, N = 100) generalizes the proposed effect of a costly permission fee to a relatively cheaper purchase, casino consumption.



Note:
1 All vehicles are classified into five COE categories: Category A refers cars up to 1,600cc & 97kW (130bhp); Category B refers to cars above 1,600cc or 97kW (130bhp); Category C refers to goods vehicles and buses; Category D is motorcycle; Category E refers all other vehicles. Our study only used the COE premium of passenger cars, which

is Category A and Category B. According to the aim of Study 1, the variables across the two datasets do not one-to-one correspond with each other. We use the mean of two COE categories' premiums each month as our monthly COE premium to correspond with the monthly car sales data. Also, the car sales data only reveal the sales volume of each brand but the retail

prices of the cars or models. To answer our research question, we classified the brands into four categories based on the average retail prices of all given brands and brand positionings: Economy (below S\$100,000), Business (S\$100,000 – S\$300,000), Luxury (S\$300,000 – S\$500,000), Super Luxury (above S\$500,000).