



The Impact of Income Distribution Gaps on Individual Consumption Decisions

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Abstract. With the sustained development of the global economy, income distribution gaps have been expanding in synchrony with economic growth. This situation makes income inequality a key factor influencing individual and societal development. This paper examines the mechanisms through which income distribution gaps influence individual consumer decision-making at the micro level. The paper aims to expose the differences in consumption behavior among different income groups when confronting unequal income distribution and the underlying drivers behind these differences. By analyzing the impact of different income distributions on individual consumption decisions, this study reveals how income inequality stimulates changes in individual consumption desires and decision-making through differences in relative income. Compared to high-income groups, a social composition with greater income disparities leads to lower consumption levels among low-income groups. Through analyzing different income distributions, this study shows how income inequality stimulates changes in individual consumption expectations and decisions through relative income differences. The research has the result that compared to high-income groups, larger income gaps lead to the development of stronger feelings of relative deprivation among low-income groups. Then it influences their consumption decisions, including consumption levels and preferences. The research demonstrates that income distribution gaps are not merely economic issues but may also become potential factors affecting community stability. Therefore, how to improve and coordinate income distribution, and mitigate the psychological and behavioral impacts of income gaps on individual consumption decisions may become a key area of focus for future research.

Keywords: Income Inequality, Consumption Decision, Relative Deprivation, Heterogeneous Effect.

1 Introduction

During the process of quick economic growth of the world. The income redistribution inequality has gradually become an important element affecting economic and social stability. The expanding income gap may not only affect sustainable economic growth but also influences the psychological knowledge and behavioral decisions of different social groups. On a global scale, income disparity is particularly prominent in regions.

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Such as the United States and Latin America, and there are big differences in income gaps between different countries and regions [1]. In China, the income distribution gap has continued to widen alongside fast economic growth. At the same time, the income disparities between urban and rural areas and among regions have become a crucial economic issue in social discourse [1].

Research nowadays indicates how the relative growth of income inequality impacts the social economic structure and individual consumption decisions. In some economic research, personal consumption decisions-an influential economic behavior, are strongly affected by income inequality [2]. For example, in societies with significant income gap. The low-income groups may express stronger consumption desires and relative dispossession. Next, they affect their consumption decisions [2,3]. Against this research background, this paper will focus on which income gap affects personal consumption decisions by internal and external mechanisms.

Overall, the main focus of this paper is on the mechanism. This paper wonders how income inequality affects individual consumption behavior. Especially how relative income inequality results in differences in consumption decisions between high- and low-income groups. Research highlights the consumption decisions in lower-income groups driven by feelings of relative deprivation. Then it is expressed as a tendency toward more conservative consumption behavior under resource limited conditions. But in higher groups they are more willing to upgrade their consumption. This is related to the psychological impact of income disparities [3,4]. The differences in consumption decision behavior between these two groups offer new viewpoints and insights into the social and economic impacts of income distribution disparities.

In China, along the rise of the middle class, the effect of income distribution gaps on the consumer market has become ever more noticeable. Research has found that rising income gaps increases sexual polarization in social consumption. It also shows the deepening differences in consumption behavior among different groups [5]. Therefore, studying the impact of income distribution gaps on individual consumption decisions is scholarly meaningful on an economic level. And provides important value for reference in making relevant social policies.

This study will further analyze the mechanisms through which income distribution gaps influence consumption decisions, as well as potential policy intervention pathways. Specifically, in China's rapidly developing economic market, how can income distribution gaps and their impacts be relatively mitigated? Through empirical analysis, this paper aims to provide theoretical support for the formulation of relevant policies, thereby promoting more reasonable economic and social development [6].

2 Literature Review

The impact of income distribution gaps on individual consumption decisions has been a significant research topic in the field of economics in recent years. Research indicates that income inequality not only affects social economic stability but also profoundly influences individual consumption behavior [1]. As the global economy continues to develop, particularly in emerging economies such as China, income distribution gaps

are widening, and consumption behavior and decisions are being significantly influenced by these gaps.

Traditional Keynesian income theory assumes the individual's consumption level largely influenced by income level. Higher income leads to higher consumption levels [1]. However, Duesenberry's theory of relative income argues. He says an individual's consumption decisions rely on their own income. And on the income gap between themselves and others. This perception of relative income gaps often leads low-income groups to exhibit stronger consumption desires. They try to compensate for feelings of unfairness through increased consumption [2,7]. Brickell et al. found that family consumption decisions are influenced by social status. Due to feelings of relative deprivation, low-income groups often display stronger consumption needs. They primarily reflected in efforts to improve social status [2]. Additionally, research suggests that income gaps influence individual psychological mechanisms. Low-income groups are developing a strong tendency to be loss averse. This psychological tendency leads them to take a more conservative approach to consumption [6].

Financial incomes are also an important source of the link between income inequality and consumption decisions. Relevant research pointed out the financial income improving the financial reachability of low-income groups. It reduces consumption barriers caused by income distribution gaps. So, it enhances their consumption behavior [4]. With the development of financial technology, the consumption power of low-income groups has been improved. They reduce the sense of inequality caused by income gaps.

In the Chinese research background, the rising income gap influenced consumption choices. It constituted a potential risk to social stability. Although the rise of the middle class had pushed consumption growth, the income gap still led to an imbalance in the Chinese consumption market [5]. The government should put in place policy interventions. Such as tax reforms and income distribution policies. They reduce income inequality and encourage more balanced consumption models [8]. Making financial services more widely available can help close the income gap. It increases the spending power of low-income groups and decreases the inequality caused by income inequality [9].

Scholars have studied the impact of income inequality on social wellbeing. They noted that unequal income distribution may affect total social welfare and individual quality of life [9]. Other scholars have discussed the relationship between self-brand connection and personal consumption decisions. They found that the connection between social identity and self-brand may also impact consumers' intention to pay and consumption behavior [10].

Overall, income inequality affects people's consumption decisions through multiple channels. They are for economic reasons, mental and social factors. Future research should keep exploring the mechanisms. It will know which income inequality affects consumption behavior and provide more focused theory support for policy making.

3 The Mechanism of Income Distribution Gap's Impact on Consumption Decisions

3.1 Resource Constraint Mechanism

In resource constraint situations, income inequality has a strong impact on consumption decisions. High-income groups can usually afford more luxury goods and services with their excess income. Like high-level luxury goods, vacation travel, and high-end dining services. They tend to pursue values like quality and brand prestige to reflect their social status and personal taste. However, low-income groups face consumption rigidity issues to meet basic living needs. Their consumption is mainly focused on necessities required to maintain basic survival and family living standards. They pay for food, housing, education, and healthcare. Non-essential consumption is constrained by income. And in lower-income situations, some of the consumption modes of low-income groups may be further restricted.

3.2 Cognitive Mechanisms

Income inequality affects individuals' consumption behavior on a physical level. Deep changes go from consumption decisions through cognitive mechanisms. High-income groups typically focus on “symbolic consumption.” They pay more attention to brand, design, and the social symbolic meaning behind products when making purchases. Brand price premiums become a key factor in their consumption choices. Low-income groups are bound by “survival consumption”. Their consumption needs mainly focused on meeting basic living needs such as food, housing, and necessities. The growing income gap increases anxiety among low-income groups about future uncertainties, especially during economic volatility. Their sense of future risks intensifies in that time. This uncertainty motivates low-income individuals to save. It leads them to reduce consumption spending by giving priority to saving and saving money to reduce future instability risks.

3.3 Social Interaction Mechanisms

Social interaction mechanisms have a deep impact on consumer behavior through economic events. They include role model effects and group dynamics. People with lower incomes often copy the spending habits of those with higher incomes to fulfill their own spending needs. Also, they try to improve their social status. For example, people with lower incomes might borrow money or use loan plans to buy luxury goods or high-end electronics. Even though they aren't really necessary. They just try to make up for the psychological gap caused by their lower income. Group stratification refers to the fact that members of the same income group tend to adopt similar consumption habits. For example, the phenomenon of “consumption downgrading” among the middle class. They may choose more expensive products or reduce high consumption spending to cope with economic stress. It mirrors the economic adaptation within this group.

3.4 Institutional Environment Mechanism

Institutional and environmental mechanisms also play a crucial role in influencing the impact of income distribution gaps on consumption decisions. The relative lack of a social security system leaves low-income groups without sufficient safeguards to cope with future uncertainties, thereby weakening their consumption, confidence and motivation. The absence of an effective social security system makes low-income groups more inclined to save rather than consume, especially when faced with health crises or unemployment risks, further reducing their willingness to consume. Additionally, inequality in financial markets limits the consumption choices of low-income groups. Differences in credit availability and credit history often force low-income individuals to rely on installment payments for consumption, restricting their consumption freedom. Such disparities in financial markets not only affect consumption patterns but may also further exacerbate consumption gaps between income groups.

4 Policy Intervention Pathways

4.1 Income Distribution Adjustment Level

Income distribution can be regulated and the gap in primary distribution narrowed by improving the progressive tax system and strengthening transfer payments. The progressive tax system reduces social income distribution gaps by increasing the tax rates of high-income earners and redistributing part of their income to low-income earners. In addition, the government can use transfer payments, such as social security and welfare programs, to directly transfer wealth to low-income groups, thereby further alleviating their economic burden. On the other hand, increasing the proportion of labor remuneration, particularly the share of wages in income distribution, also has a significant impact on narrowing income gaps. By adopting Germany's "co-determination" model, where employees elect representatives to participate in corporate decision-making, workers' bargaining power can be effectively enhanced, ensuring they receive fair treatment in terms of wages and benefits. This not only helps improve the income levels of low-income groups but also promotes harmonious and stable labor-management relations.

4.2 Consumer Environment Optimization

The important way to reduce the impact of income disparities on consumer decisions is to create a better consumer environment. Regulating the consumer credit market is key. It shows low-income groups often borrow excessively. By better regulating the credit market, people can stop behaviors that lead to irrational consumption. Reducing low-income groups borrow too much and keep them from getting deeper into debt and poverty. Fostering public service equity and reducing the pressure of spending on education, healthcare, and other essential expenses is another important way to reduce the impact of income gaps. The government can use policy support to lower spending by low-income families in these areas. These can ensure they have access to reasonable

education and healthcare resources. They can upgrade their quality of life. Then, developing finance that's inclusive. The community banking model in the US improve access to credit for low-income groups by offering small loans and low-interest credit. Followed like this. All these can help them get more economic chances.

4.3 Governance of Digital Consumption

Digital consumption has grown in recent years. Efficient governance of this new field has become critical. In digital consumption, platforms often use big data and accelerated pricing to provide consumers with accurate recommendations. However, this practice may have negative effects on low-income groups. Government needs to prevent platforms from using big data to impose price discrimination on low-income groups. And try to strengthen accelerated pricing regulations to ensure fairness and stability. For example, platforms could be required to make their pricing alarms public and impose sanctions on unreasonable pricing practices. Next, promoting digital education is an important way to increase the consumption decision-making ability of low-income groups. By increasing the digital skills of low-income groups, they can better understand how to use online platforms for reasoned consumption. They can avoid consumption decision-making errors caused by information dissonance or technical barriers. This increases their consumption decision-making ability. It also strengthens their sense of participation and achievement in the digital economy.

5 Conclusion

This paper employs a combination of literature analysis and theoretical synthesis to examine the impact of income distribution gaps on consumption decisions. It systematically elucidates the underlying mechanisms from four dimensions—resource constraints, psychological cognition, social interaction, and institutional environment—and proposes corresponding policy intervention pathways. The analysis reveals that income gaps not only influence individual consumption behavior through the restrictive effects of material resources but also profoundly impact psychological expectations, consumption motives, and social interaction patterns. High-income groups tend to pursue hedonic and symbolic consumption, while low-income groups are constrained by rigid expenditures and concerns about future uncertainty, leading to suppressed consumption intentions.

Empirical effects and group polarization reinforce the trend of consumption differentiation across different social strata, while the absence of social security systems and insufficient financial accessibility exacerbate imbalances in consumption decisions. To address these issues, this paper proposes three levels of intervention measures: income redistribution, optimization of the consumption environment, and digital governance. These include improving the progressive tax system, promoting labor-management co-governance, regulating the credit market, developing inclusive finance, strengthening data regulation, and enhancing digital cultural education. The aim is to mitigate the adverse effects of income inequality on consumption structure and enhance the overall health of the consumption market.

This study contributes to a deeper understanding of the intrinsic link between income gaps and consumption behavior, providing theoretical foundations for policy-making. However, due to the limitations of empirical data, future research could further explore the consumption response mechanisms of different income groups through micro-surveys or panel data empirical analysis, examining dynamic evolutionary trends to enhance the breadth and practical guidance of the research.

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