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From Tulip Mania to Labubu Boom: How Social Proof and Herd Behavior Fuel Financial Bubbles

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Abstract. In recent years, the rapid growth of the Labubu collectible market has demonstrated how emotional consumption, social media influence, and scarcity-driven speculation have contributed to financial bubbles. Based on this background, this research discusses how social identity and herd behavior contribute to speculative demand in the designer toy market and compares it to the tulip mania in the 17th century. This literature review integrates empirical findings from behavioral psychology, consumer neuroscience, and social network studies, to focus on how social comparison, emotional contagion, and reward anticipation influence group decision-making. It also combines the studies about scarcity marketing and peer-driven consumption to reveal how artificial scarcity amplifies market enthusiasm. The research findings show that the consumers of Labubu generally rely on social media, such as trending topics, resale prices, and friends recommendations; in that case, herd behavior will be activated. This process is highly similar to the psychological heating up during the tulip mania. The literature reveals that: (1) social identity increases the tendency to take risks; (2) herd behavior weakens rational judgment; (3) scarcity amplifies emotional investment and speculative motives. This research ultimately concludes that the financial bubbles in the designer toy market are the result of the combined effects of social pressure, emotional contagion, and scarcity signals. It also suggests that the government should enhance consumer education, regulate platform mechanisms, and increase the transparency of the secondary market. This research provides a systematic perspective for understanding contemporary speculative consumption and offers insights for preventing financial bubbles in the contemporary market.

Keywords: Herd Behavior, Emotional Consumption, Scarcity Marketing, Social Identity, Financial Bubbles

1. Introduction

In recent years, with the rapid development of the designer toy Labubu, which lets cultural consumption turn into a complicated phenomenon, emotional expression, social identity, and speculative investment. Some hidden edition blind boxes, originally priced at 99 yuan on the official website, have soared to over a thousand yuan in the secondary market, reflecting how scarcity, peer influence, and digital social exposure reshape consumers' decision-making way. Similar emotional amplification and herd behavior have also been widely verified in contemporary studies. For

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example, A New Mechanism for Purchasing through Personal Social Networks emphasizes that "peer-driven recommendation systems generate rapid emotional contagion," which means that expectations of reward and social comparison will activate the neural mechanisms that promote impulsive buying and risky behavior [1].

Historically, this psychological mechanism has repeatedly occurred in financial bubbles; the most famous event is the tulip mania in the Netherlands in the 17th century. The speculative enthusiasm and the process of prices detaching from the real value during that period are similar to the current market for designer toys. Although the existing research has discussed herd behavior and emotional contagion, few studies have integrated these theories to analyze cultural consumption, especially the "bubbling" increase in the Labubu market.

Therefore, this research aims to discuss how social identity, conformity behavior, emotional contagion, and scarcity drive the speculative demand for Labubu together. Through combining the psychology theories and consumer behavior patterns, hoping to provide insights about contemporary speculative consumption and promote sustainable governance of the market.

2. Key concepts

Herd behavior refers to the tendency of individuals to mimic the actions of a larger group in order to reduce decision-making risks or gain social approval. This imitation stems from uncertainty avoidance and the desire for cognitive ease, as individuals perceive following others as a heuristic that reduces the mental cost of decision-making, particularly in uncertain situations. As Sharma and Bikhchandani note: "Thus, informationally inefficient herd behaviour may occur and can lead to price bubbles and mispricing when the accuracy (or lack thereof) of the private information is imperfect [2]." Social proof is a closely related psychological mechanism, introduced by Robert Cisadini, which means that in some uncertain or vague situation, individuals observe others' behaviors and infer that these actions are appropriate, so individuals are prone to develop the mentality that "If everyone is buying/doing this, I should also follow them to do these things." In the particularly literature, people can find that " "This study is anchored to assimilate the body of knowledge on herd behaviour in financial markets to understand the evolution of the subject [3]. which shows herd behavior not only exists at the consumption level, but also important in financial market.

Financial bubbles occur when the price of an asset becomes disconnected from its intrinsic value, driven by speculative expectations and amplified by social dynamics. As Chang remarks: "Herd behaviour arises naturally when there are strong enough social interactions among individual investors [4]." The key features of financial bubbles include prices rising rapidly, a sharp increase in trading volume, similar expectations among market participants('I buy because others buy'), scarcity mechanisms or limited quantity mechanisms, and social transmission effects. As a result, this will lead to a correction or crash.

3. From Tulip Mania to Labubu boom: how social proof and herd behavior fuel financial bubbles

Before the discussion of Labubu, it is necessary to review the typical case of financial bubbles, that have been widely quoted in history-- the Dutch Tulip Mania of the 1630s. Because the Labubu phenomenon was also embedded in the Dutch Republic's mercantile culture, where tulips symbolized not just wealth but also cultural refinement and social prestige. The Tulip Mania took place in the Dutch Republic during the 1630s, at that time, tulips as a newly introduced flower,

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symbolizing wealth and prestige, quickly became a luxury that both the nobility and businessman desired to obtain. Initially, the price increases in the market were mainly because of the cultivation of scarce varieties and the expanded consumption among nobility., But with the spreading of speculative behavior, ordinary citizens also began to participated in this market, which forms a highly speculative market. According to Garber, tulip bulbs were traded through contracts initially, gradually detaching from intrinsic value. He wrote: "Though it is always mentioned first among the list of obvious manias … the paper compiles time series on individual tulip prices and examines market fundamentals potentially driving prices 535 [5]." As speculation aggravated, the prices of rare bulbs increased to an extreme level; the prices of some common varieties were even similar to the annual income of a skilled craftsman. By February 1673, market confidence suddenly collapsed. This collapse was accelerated by panic selling and rumor diffusion, which amplified fear and prompted rapid withdrawal from the market, and speculators could not find new buyer. Just a few weeks ago, the price plummeted to a tenth of its original level. Garber noted: "Only the last month of the speculation, during which common-bulb prices increased rapidly and crashed, remains as a potential bubble [5]." These financial bubbles not only led many investors to suffer huge losses, but also became an important case for later generations to study the irrational fluctuations of asset prices and group psychology. To summarize, the origin of Tulip Mania is because the combination of scarcity and social status. It was amplifies phased price speculation and herd behavior, and collapsed rapidly in the breakdown of social psychology. The whole process reveals the core effects of social psychology, market expectations, and information dissemination in the formation of financial bubbles.

As this case is always regarded as the "first widely-known financial and assets bubble." As one guide notes: "Tulip Mania … has long been considered the first recorded speculative or asset bubble [6]."

This historical case of Tulip Mania provides researchers with a valuable reference framework: scarcity, herd behavior, rapid escalation, and collapse. These factors can be observed in both the flower market in 17 century and the designer toy/ blind box market in 21 century. In the modern era, Labubu as a typical limited quantity designer toy. Unlike traditional markets, social media platforms such as Weibo, TikTok, and Instagram act as amplifiers of herd dynamics by broadcasting scarcity and resale prices in real time, through blind box mechanisms, social media dissemination, and secondary market speculation show a similar logical path with Tulip Mania. The commercial success behind Labubu is from the combination strategies of blind box mechanism , scarcity(limited quantity). In the past few months, as one of the representatives of designer toys, Labubu has become a "cultural symbol" among young people. The original price of the blind box is only 99 yuan, but its price has soared to over 3000 yuan in the secondary market, and the average annual appreciation rate is more than 300%. From this, this paper can conclude that the consumption of designer toys is not only just a collection behavior, but also gradually turns into an "emotional asset" with financial attributes and speculative overtones. This transformation from toy to asset has a similar logic to tulip mania, which regards flowers as wealth.

In the Labubu market, social proof and herd behavior operate through the following mechanisms. The first is informational social influence. Such influence is often reinforced by optimism bias, where individuals overestimate their ability to replicate others' success in speculative markets. When consumers face a high level of uncertainty, they often refer to other people's behavior, such as purchasing or profitable reselling, as a basis for judgment. As one article states: "Labubu's aftermarket economy … time-sensitive drops, instant sell-outs, and a booming resale scene where

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buyers flip exclusive figures at 10–100× markups [7].” When people see other people speculate successfully and sell at a high premium, they will regard it as a signal of “worth following”.

In the Tulip Mania episode, it is true that there was no social media at that period of time, but the rumors and contracts generated a similar social influence. Garber notes: “Only the last month of the speculation, during which common-bulb prices increased rapidly and crashed, remains as a potential bubble [5].” These price performances also suggests that at that time, consumers were more rely on other people’s behavior and market atmosphere to buy things, but not basing the true value of products.

The second is normative social influence. This reflects a form of symbolic consumption, where individuals use ownership as a means of social comparison and identity construction: In the Labubu case, owning a rare version is not only the toy itself, but also a symbol of social status. Consumers share their Labubu on social media, participate in community interactions. In that situation, people are often envious of the people who get the latest or rarest Labubu, and the people who do not have one might be regarded as “out of date”. The atmosphere of “everyone is buying/ everyone is showing off” increases the motivation to follow the trend and make purchases.

In addition to this, how does herd behavior drive the financial bubbles? The path can be divided into the following stages: the first step is to create scarcity, brands limit quantity or use blind box mechanisms, let consumers fear of missing out. Noted by SAGE, “The Labubu doll craze, driven by Pop Mart’s strategic use of blind-box packaging, celebrity endorsements, and global expansion, illustrates how scarcity … [8]”. The second step is social diffusion, early buyers resell these designer toys at high prices, when other consumers observe this phenomenon, they will imitate this behavior to make profits. Chang states: “Herd behaviour arises naturally when there are strong enough social interactions among individual investors [4].” The third stage is secondary market feedback and hype cycle. High resale profits are published by social media, and more people enter this market. The piece “From boom to bust: Labubu tumbles on resale market as hype fades [9].”, this cycle can both fuel the rise and accelerate the crash. The last stage is correction, because of bubbling. After correction, the market often undergoes a collective reevaluation phase, during which participants reflect on their past irrationality and adjust their risk perception. When supply increases, and the discussion of this topic decreases, at this time, participants might find that the asset they followed the trend to buy is not irrational, but a “trend” driven by hype.

To summarize, by comparing the Labubu phenomenon with Tulip Mania, this paper finds that both episodes share a common underlying mechanism; this transformation from ”toy” to “asset” is similar to the logic of Tulip Mania, regard flowers as wealth. These are all influenced by herd behavior and social proof. As the literature said that Sharma and Bikhchandani state: “Herd behaviour … can lead to price bubbles and mispricing when the accuracy (or lack thereof) of the private information is imperfect [2].” Pitkäkoski writes that social influence, cognitive biases, and market conditions jointly “strengthen speculative bubbles in financial markets [10].” This suggests that when researchers research the financial bubbles of the collectibles/ designer toy market, they should both concentrate on the basic side of the economy and incorporate group psychology and the dissemination mechanism. In this sense, it can be found that when ”social capital” and ”financial capital” interact in society, the actions of pursuing identity recognition and emotional satisfaction become an essential force to form financial bubbles. This means that Labubu is not only a good, but also a mirror that can reflect the fragility and fanaticism in modern people’s hearts.

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4. Discussion

The phenomenon of the Labubu boom and Tulip Mania reveal that herd behavior and social proof not only exist in the traditional financial market but also influence modern cultural consumption and digital trading. As one study noted, Hung et al, "A new mechanism for purchasing through personal interactions: fairness, trust and social influence in online group buying. Information Technology & People [1]." This clearly explains why consumers tend to follow trends rather than intrinsic product value.

Research on consumer behavior in virtual and secondary markets also confirms this pattern. The study Scarcity, Hype, and Resale Gold: Inside the Labubu Boom (SAGE, 2024) found that the rapid value escalation of Labubu collectibles was "driven less by artistic quality than by the social validation users seek through online communities [8]." In other words, social media becomes an amplifier for speculative psychology. Scarcity, social endorsement, and resale reinforce each other, forming the self-circulation of a financial bubble.

From the historical comparison, this mental mechanism is highly similar to the Tulip Mania of the 17th century. As Garber observed, "Only the last month of the speculation, during which common-bulb prices increased rapidly and crashed, remains as a potential bubble [5]." This indicates that whether in flower markets and in designer toy markets, the core motivation of a financial bubble is fact prices deviate from their fundamental values, and the continuously reinforced by social imitation, and as a symbol of status. For example, when Labubu becomes popular, more and more people follow the trends want to have one even though they do not need it in daily life, the main reasons of that is because they do not want to be different from other people, and they want to let other people envy them or having a show-off mentality, hoping to let other people consider they are trendy and wealthy, which gradually becomes a stealth symbol of social classes.

In addition to this, behavioral finance research also shows that, in the digitally mediated environments, collective overconfidence and herd behavior are particularly prominent, reflecting individuals' dependence on social validation in uncertain digital environments. A study published in Information Technology & People found that "the immediacy of online validation creates feedback loops that magnify perceived value and accelerate speculative dynamics", which is highly consistent with the features of the Labubu market--- the scarcity hype, social media influencer marketing, and resale construct a "emotional investment logic" [1].

However, compared with the traditional financial bubble, the Labubu boom has structural differences. Labubu market relies on an algorithm-driven economy that amplifies user visibility and reinforces speculative attention cycles, which means that exposure itself can become capital. Therefore, the scarcity of Labubu is more shown by well-design of the well-designed market mechanism rather than the natural limitations on resource supply. Moreover, the comparison with Tulip Mania provides researchers with deeper insights. During the peak period of speculation, the prices of rare bulbs rose twentyfold within a few weeks, and more and more ordinary people participated in it, regarded it as a "shortcut to wealth" [5]. But the market collapsed quickly in February 1637, revealing that social proof, herd behavior, and delayed realization of risk worked together to form this financial bubble. Similarly, the Labubu boom has replayed this mode in the digital context, the medium has changed from rumors and chambers of commerce in17th century to social media, but the thoughts still remain the same. Desire, imitation, and the fear of missing out (FOMO) still dominate the market. From that, it can be concluded that the essence of bubbles is the periodicity of group emotions rather than the mistakes of economic irrationality. This kind of emotion can be guided, but can't be eradicated completely.

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5. Suggestion

To nitigate the speculative risks in the designer toy market, the following suggestions can be made from three perspectives-- policy, consumers, and brands: firstly, regulatory authorities like the government should enhance the transparency requirements of the secondary market to prevent market manipulation and fake scarcity promotion. Also, As A New Mechanism for purchasing through Personal Social Networks indicates, “peer recommendation systems create rapid emotional contagion that amplifies speculative demand [1].” Therefore, governments should make regulations to let platforms and brands take the responsibility to reduce the “artificial scarcity” manipulation and disclose the supply data and resale data.

Second, improving the public’s financial knowledge and behavioral awareness is essential. Understanding how “social proof and scarcity cues bias valuation judgments” can help consumers recognize emotional triggers and avoid irrational purchases. For example, teaching and encouraging the public to consider the intrinsic value of a product, and consider the true value this product can bring you in your daily life, rather than its recognition, this behavior can gradually weaken the herd mentality.

Ultimately, brand owners should pursue long-term progression, like creating more new ideas about products, increase products’ quality and emotional resonance about products rather than relying on short-term hype. Therefore, future trend consumption should pursue a balance between social identity expression and the rational market. Only by addressing irrational behaviors at the emotional level can society achieve an innovative and sustainable market environment.

6. Conclusion

Speculative bubbles follow a strikingly similar psychological logic, regardless of period or market, as demonstrated by the similarity between the Labubu boom and the historical Tulip Mania. Prices are pushed much beyond intrinsic worth by a combination of scarcity, herd mentality, emotional contagion, and social proof. This leads to cycles in which people copy the actions of others in order to obtain social acceptance or get over their FOMO. Digital channels like Weibo, TikTok, and Instagram exacerbate this dynamic in the case of Labubu by increasing resale values, showcasing possession as an identification marker, and quickening emotional reactions. Designer toys thus transform from creative rarities into "emotional assets" with monetary qualities. According to this research, it is necessary to understand modern cultural consumption using psychological mechanisms and digital dispersion patterns in addition to economic principles. Labubu's scarcity stems from market design and algorithm-driven visibility rather than natural constraints like those in tulip cultivation. This illustrates how contemporary speculative behavior has become more reliant on social comparison and online validation, turning exposure into a type of capital.

Multi-level initiatives are needed to support a more sustainable and healthy market environment. Brands should put long-term worth ahead of short-term buzz; consumers should be more conscious of how social cues skew valuation; and regulators should increase transparency to prevent artificial scarcity. In the end, the Labubu phenomena shows that bubbles are driven by communal emotions rather than pure economic folly, and controlling future speculative tendencies requires an awareness of these dynamics.

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