

Giffen and Veblen Goods

According to the law of demand, as price rises, the demand for the good/service falls. This means that consumers purchase less of it. While the majority of goods/services follow this law, Giffen and Veblen goods violate it.

For Giffen and Veblen goods, when the price rises, the quantity demanded also increases. This means that they have positive price elasticity of demand, while goods/services that follow the law of demand have negative price elasticity.

A classic example of a Giffen good is an inferior staple food, like a potato. The demand for this staple food is driven by poverty. As the price of cheap staple food rises, consumers have even less income to spend on supplemental expensive food. The demand for expensive food would decrease and this dynamic is referred to as the income effect. Because of the smaller amount of disposable income, they are driven to buy more of the inferior food (the potato).

A Veblen good on the other hand, is typically a luxury good. A price increase in these types of goods/services enhances the exclusiveness and status, thereby making them more desirable and increasing demand for them.

Instructional audio

According to the law of demand, as price rises, the demand for a good or service falls. While the majority of goods/services follow this law, Giffen goods, the griffen, and Veblen goods, the V-bling necklace, violate it. Here you can see that demon, or demand, is not controlling where the griffen is flying, which happens to be up.

This is important because instead of having the typical negative price elasticity of demand, Veblen and Giffen goods have a positive price elasticity of demand, reinforced by the griffen flying upwards.

Veblen goods are typically luxury goods- hence the bling on the V necklace, while Giffen goods are classically illustrated by inferior staple food whose demand is impacted by poverty. A rise in the price of a staple good decreases the amount of disposable income the consumer has. This then decreases the demand for more expensive foods. This dynamic is called the income effect, or the net with ink, which is weighing down the Giffen good, the griffen.

CREATIVE AUDIO

This demanding **demon** has an insatiable appetite for luxury goods, as you can tell by his **V bling** necklace. He pulls hard on the reigns, forcing his **griffin** to fly higher and higher. He uses the amazing view from up above town to spot the most expensive items. And he makes his griffin carry a **net** full of **ink** cash where ever he goes, so it flies just as high, dripping ink on the unfortunate pedestrians below.



PLAY PICMONIC

Law of Demand

Demon

Consumers buy more of a good when the price is lower than when the price is higher. This law applies to the majority of goods/services, but not Giffen and Veblen goods.

Income Effect

Net cash with ink on it

The change in an individual's income and the consequential impact on quantity demanded.