

An Introduction to Microeconomics
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Lecture - 67

Giffen Good

(Refer Slide Time: 00:16)

→ (↓) → normal good

	Substitution	Income	Overall
$P_1 \uparrow$ Normal	↓	↓	↓
Inferior	↓	↑	⇒ ↓ or (↑)

✓ 1) Inferior good
 ✓ 2) Income effect is larger than substitution effect in magnitude

So let me say here just the repetition, normal, inferior. Let us say we are talking about price of good 1 has gone up substitution, income these are the effects and overall. When P_1 goes up subs because of substitution effect x_1 will.

Student: Come down.

Come down. And for income also because of income effect it will come down. So, overall it comes down.

Student: Come down.

While inferior goods substitution effect quantity demanded would come down while income effect is.

Student: Up.

Up. So, overall there are 2 possibilities either.

Student: (Refer Time: 01:03).

The price of good 1 comes down and overall the total quantity demanded of good 1 comes down or.

Student: It goes up.

It goes up theoretically it is possible.

What does it mean that what when we can this scenario that price is going up and the quantity demanded of good 1 is going up. When do we get the scenario?

Student: (Refer Time: 01:27).

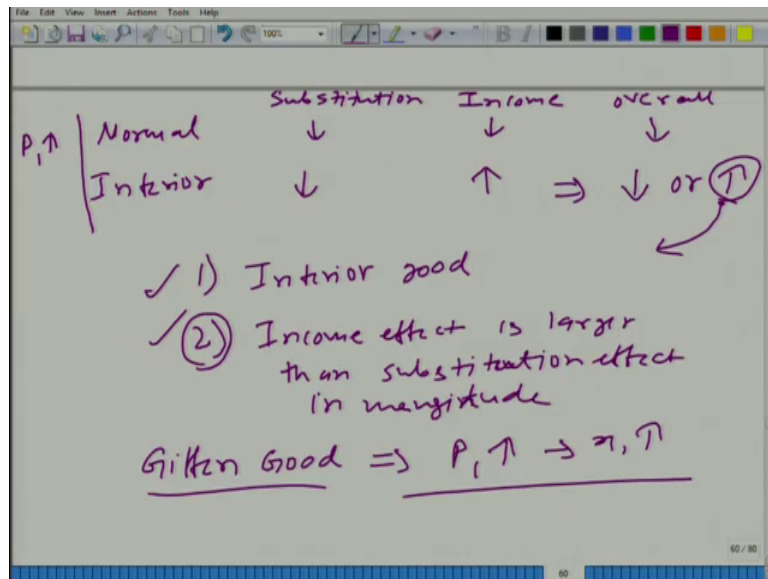
When 2 things are important; first that this good has to be an inferior good, then only the substitution effect and income effect would work in the

Student: Opposite.

Opposite direction so that is definitely required.

What else not only this, but income effects should be greater than substitution effect in the so first requirement is inferior good, second income effect is larger in magnitude, larger than substitution effect in. So, theoretically speaking what is happening? The price of good 1 is increasing and if these two are true then the quantity demanded of good 1 is increasing such good are called.

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Student: Giffen good.

Giffen goods. Giffen good. What it means is P_1 goes up x_1 also

Student: Goes up.

Goes up. Can you give me an example its very very difficult to find Giffen good in real life why? Why cannot we find Giffen good in the real life the problem is that the second point typically income it is very very difficult to have income effect larger than substitution effect ok.

When can we have income effect larger than substitution effect when majority of your income is spent on this particular good then only it is possible ok?

Student: Sir just one question.

Student: Sir can luxury goods can be termed as Giffen good because.

No. Luxury goods are not Giffen goods.

Student: Sir like if Gucci is a brand and it is.

Student: Prices comes down by significant amount.

Student: No one could buy a Gucci, it is it is at that level only because of it is prices.

I am I am not certain about this statement then when price of these goods would come down then people would not buy what you are saying is that let us say that the price of a purse you know these expensive purses; let us say 10000 rupees and if it comes down to 9000 rupees, then less number of people would buy these purses that is not possible.

Student: No, no if some purse is very expensive like

Student: 10 lakh rupees and it symbolizes your status.

Student: And other day it comes down to 1 lakh rupees.

Student: Then there is no point that the purse the set of people who were consuming that purse that good for 10 lakh rupees to show their status would buy the same purse at 1 lakh rupees because it will become more common than it would not symbolized their status.

To see what again there are a lot of assumptions that you are making in giving this statement because see at 1 lakh rupees also it will be a status symbol for different group of people, and given the income distribution in this world probably more number of people would be comfortable buying it at 1 lakh rupees price ok.

So, probably the not probably the consumption of these goods will go up because price has come down maybe not same set of people would buy, but when we are talking about from for the market.

Student: Sir the persons who have income who are like we can offer in (Refer Time: 05:19).

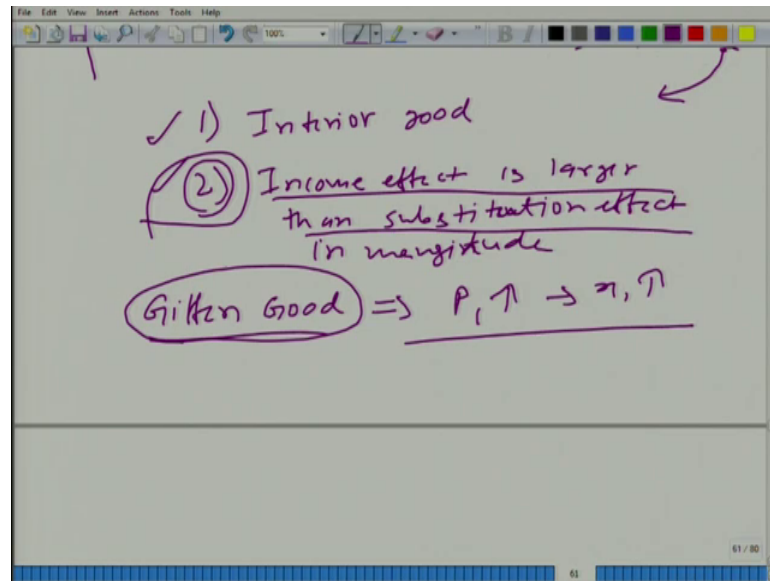
And also see this is the another requirement here that income effect has to be larger than substitution effect it means significant portion of your income is gone in buying these items so that is not true.

Student: Oh ok.

That is not true ok. So, these luxury goods are not Giffen goods fine, it is clear.

Let me give you just an example typically it is very very difficult to find Giffen goods.

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You know if you take an example of potato that I gave you earlier and it was it was talked about for a very long time in economic discipline that during Irish famine the potato was Giffen good because people were using most of their income to buy potato because that is what they would consume.

So, when the price of potato went up they could not even spare little bit of money for meat and other food products. So, to get enough calorie; they had to increase the consumption of potato. So, in that case if this story is true then potato is Giffen good ok, but the problem is with this the second requirement that income effect is larger than the substitution effect. Typically this is not fulfilled that is why we have very very hard time getting finding out figuring out Giffen good in an economy, fine.