

## **Answer on Question #44063 – Economics - Microeconomics**

Use suitable examples to explain the meaning of normal, inferior and giffen goods

### **Solution**

A normal good is a good the demand for which increases as income increases. The income effect is positive and the substitution effect is positive. Therefore as price increases, demand falls, and vice versa. Normal goods have a positive income elasticity of demand. The examples of normal goods are meat, chocolate etc.

An inferior good is a good the demand for which decreases as income increases. An inferior goods has a negative income elasticity of demand. The income effect is negative, but is outweighed by a positive substitution effect. Therefore as prices increase, demand falls, and vice versa. An example of an inferior good is Tesco value bread. When your income rises you buy less Tesco value bread and more high quality, organic bread.

A Giffen good is a good where the income effect is so negative as to completely outweigh the substitution effect. As prices increase, demand increases, and vice versa. This means that Giffen goods would have a positive price elasticity of demand. The main idea here is that Giffen goods are essential and have no close substitutes, so as their price increases, disposable income is switched away from other goods and towards the Giffen good. For example, if the price of wheat rises, a poor peasant may not be able to afford meat any more, so has to buy more wheat.