**As price goes up, so does demand**

Not many economic papers start with a quote that suggests the authors will “be assured immortality, professionally speaking, and rapid promotion while still alive.” Here, it may just prove true. Robert Jensen and Nolan Miller, two Harvard professors, have shown the actual existence of an elusive economic construct which has so far only existed as a gleam in the eyes of theoretical economists: [a good for which demand goes up when prices rise, and falls when prices go down](http://www.nber.org/papers/w13243).

These “Giffen goods” show up in every introductory economics textbook as a freak case when the law of demand fails. Legend describes the Irish potato famine as a possible example: as the price of potatoes rose, people were so poor that they started substituting potatoes, a dietary staple, for meat and other unnecessary luxuries. The Irish consumed more potatoes as a result.

The trouble with this example is that Ireland was having a famine. The rising potato price was almost certainly caused by a supply shortage, making it highly unlikely that people were able to consume more of them. That has not stopped generations of textbook writers from using this particular example. Now, they can finally switch to a case with a bit more proof behind it.

Jensen and Miller look at poor Chinese consumers and demonstrate that they consume more rice or noodles, their staples, as prices go up. The idea is the same as with the proverbial poor Irish. People need a certain amount of calories to survive—let’s say 1600 per day. You can either get that by consuming rice and perhaps some vegetables alone, or by eating rice, vegetables and a few bites of meat.

But meat is expensive. As the price of rice goes up, these poor Chinese can no longer afford the luxury of cooking meat, yet they still need to get to their 1600 calories. So they eat rice instead, which is still relatively cheap compared to meat. Voila!: Giffen behaviour in action.

What does this mean for the real world? Prices of certain food crops have increased by as much as twofold over the last 18 months, which has lots of [negative consequences](http://www.economist.com/blogs/freeexchange/2007/07/the_law_of_unintended_conseque_1.cfm) for the world’s poor. One such consequence might be that demand for staples has gone up even further.

The same phenomenon might apply to poor everywhere. What about poor Americans and their car addictions? If the price of oil goes **up,** will they forgo other luxuries and drive more? Or Londoners, for that matter.  As Ken Livingston keeps ratcheting up the fares, will poor Britons spend more time on the tube?

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