Inferior Goods and Giffen good

First, the thing that is common between them is that they **both are exceptions to the law of demand**. That is, they defy the premise of negative relationship between price and quantity demanded of a good.

But how they work and kind of goods that they imply are completely different.

Inferior Good:

inferior good is one whose demand drops when people's incomes rise.When incomes are low or the economy contracts, inferior goods become a more affordable substitute for a more expensive good.Inferior goods may refer to the brand of products purchased, items purchased, or instance of how something occurs (i.e. taking a bus vs. driving a new car).

Inferior goods are the opposite of normal goods, whose demand increases even when incomes increase. Inferior goods also oppose luxury goods, items of higher quality often sold at a premium that are not needed

There is an inverse relationship between quantity demanded and income of a person

A **Giffen good** is basically a type of inferior good (good whose demand falls when income increases) which has no close substitutes. Let us take the example of potatoes and cheese to understand this.

A poor consumer spends a large part of his income on potatoes as it is one of the cheapest vegetable available in the market. Cheese, on the other hand, is considered a superior food that can be say consumed in place of potatoes but is expensive to buy.

When price of potatoes rise, people give up spending on all other goods and concentrate all their purchasing power towards procurement of potatoes as thats a necessary staple for them and there is no other close substitute. However, when price of potatoes fall, people decrease their consumption of potatoes even further to make use of their increased purchasing power to buy more of superior goods like cheese. That’s how Giffen goods work and defy the law of demand.

Giffen Good: There is a direct relationship between quality demanded and price increase of goods.