

Calculating a Giffen Good

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Abstract

This paper provides a simple example of the utility function of two consumption goods which can be calculated *by hand* to produce a Giffen good. It is based on the theoretical result by Kubler, Selden, and Wei (2013). Using a model of portfolio selection with a risk-free asset and a risky asset, they showed that the risk-free asset becomes a Giffen good if the utility belongs to the HARA family. This paper investigates their result further in a usual microeconomic setting, and derives the conditions for one of the consumption goods to be a Giffen good from a broader perspective.

Key words: HARA family, Decreasing relative risk aversion, Giffen good, Slutsky equation, Ratio effect

JEL classification: D11, D01, G11