Stellenbosch 2023 Abstract Submission

Title
Can we observe “Giffen behaviour” in times of inflation related to wine, beer, spirits and non-alcoholic beverages? - The case of Spain

I want to submit an abstract for:
Conference Presentation

Corresponding Author
Britta Niklas

E-Mail Corresponding Author
britta.niklas@rub.de

Affiliation
Institute of Development Research and Development Policy, Ruhr University Bochum

Keywords
Giffen demand, inferiority condition, Spain, wine, beer, spirits

Research Question
Can “Giffen behaviour” be observed in the context of alcoholic (wine, beer, spirits) and non-alcoholic beverages in the case of Spain?

Methods
Descriptive statistics are applied first, then price elasticities are estimated and then OLS regression is applied to estimate (upward or downward sloping) demand curves.

Results
The results are preliminary. There are years of positive price elasticities of demand for all beverages. For wine in several years upward sloping demand curves can be observed.

Abstract
Introduction
The classic definition of so called “Giffen goods” are based on the work of Alfred Marshall (1890) and is named after Sir Robert Giffen, to whom Alfred Marshall attributed the idea.
In case of a price increase, the demand of the good will rise as well and vice versa. In contrast to the demand of a normal good facing a price increase, the negative income effect outweighs the substitution effect which results in a demand increase. The change in price translates directly to the change in quantity. Consequently, the demand curve of a “Giffen good” is upward sloping and has a positive demand price elasticity (Yiping et al. 2009, p. 2, p. 6) and as such is an exception of the so called “Law of demand” (Franco 2015, p. 557).
The theory suggests that “Giffen goods” can be primarily observed in the setting of low-income levels and basic goods or staple food (Haagsma 2012, p. 12). But more recent research suggests, that the “Giffen phenomenon” - which characterizes the Giffen behaviour with respect to a particular commodity - can be found at different income levels and for different kind of goods, under more realistic market assumptions (Franco 2015, p. 557, Haagsma 2012, Jensen and Miller 2008, p. 1558).
Zhu (2016) as well suggests that Giffen goods are not restricted to inferior food and low-income households but can occur in the case of superior food and wealthy households as well. His study on the demand of meat and wheat during the Chinese famine even states, that superior food is more likely to be a “Giffen good” and is more likely
found in wealthy households as “these households have high levels of both income and preferences for taste” (Zhu 2016, p. 13-20). Based on the findings of Jensen and Miller (2001), Mckenzie (2002) examines in his paper if Tortillas qualify as a “Giffen good”, but his findings suggest that Tortillas do not, but can be seen as an inferior good for individuals with higher income. He as well states, that the “Giffen phenomenon” occurs more often in markets with less substitute opportunities.

For Spain Franco (2015) examines “Giffen behaviour” on the Spanish vegetable market during the financial crisis. He establishes the assumption that the income and substitution effect do not happen at the same time but after one another, which allows to analyse the change in purchasing power and relative price changes separately (Franco 2015, pp. 564f.). Considering simultaneous supply and demand changes he describes eight different optional situations (based on variations of the elasticity of demand and supply) which he suborders into three different phenomena: “Giffen-based degrowth”, “Giffen-based consumption” and “Giffen-based innovation”. He then applies his approach using Spanish vegetable prices and consumption data. He finds “Giffen behaviour” for onions, green beans, potatoes, lettuce, lemons, and apples, but the most interesting insight is, that the results are different when analysing data for total of Spain or separately for different regions of Spain. He states that the lack of disaggregated data makes it much more difficult to actually observe “Giffen behaviour” and suggests to analyse the “Giffen phenomenon” on a more disaggregated level for goods that satisfy the same category of need.

**Research Objective**
This paper wants to analyse if “Giffen behaviour” could be observed in the context of alcoholic (wine, beer, spirits) and non-alcoholic beverages in the case of Spain. Based on the suggestions of Franco (2015) data from total of Spain and from four different provinces of Spain is analysed. These provinces can be clustered into two high income and two low income parts of Spain in order to find in which parts Giffen-behaviour is more likely to be observed and for what kind of beverages.

**Data**
The data on annual consumption and on average prices for Spain and the four separate regions for the years of 2000-2021 are obtained from the Spanish Annual Consumption Panel that is published online. There is separate data for red/white/rose wine, separate data for still and sparkling wine, for normal beer, craft beer and alcohol-free beer and for different kind of spirits and non-alcoholic beverages.

**Methods**
Descriptive statistics are applied first, then price elasticities are estimated and then OLS regression is applied to estimate (upward or downward sloping) demand curves.

**Results**
The results are preliminary. There are years of positive price elasticities of demand for all beverages, but especially for wine. For wine in several years upward sloping demand curves can be observed. This is more obvious in the higher income parts of Spain.
The results can be contrasted to research suggesting a Veblen effect for (fine) wine. This paper suggests that it might be possible, that in times of inflation there could be as well some kind of Giffen behaviour among (higher income) consumers, who have a high preference for wine.
For future research it will be interesting to extent this paper by adding and analysing data from other countries.

**References**


File Upload (PDF only)
- Niklas_Giffen_AAWE23.pdf

Consent
☑️ I agree to the privacy policy.

You find the link to our privacy policy at the bottom of the page. In the privacy policy you find a link for exporting and/or erasing your personal data stored in our database.
Can we observe “Giffen behaviour” in times of inflation related to wine, beer, spirits and non-alcoholic beverages? - The case of Spain

Keywords: Giffen demand, inferiority condition, Spain, wine, beer, spirits

JEL Classification: C15, C80, D01, E21

Introduction

The classic definition of so called “Giffen goods” are based on the work of Alfred Marshall (1890) and is named after Sir Robert Giffen, to whom Alfred Marshall attributed the idea.

In case of a price increase, the demand of the good will rise as well and vice versa. In contrast to the demand of a normal good facing a price increase, the negative income effect outweighs the substitution effect which results in a demand increase. The change in price translates directly to the change in quantity. Consequently, the demand curve of a “Giffen good” is upward sloping and has a positive demand price elasticity (Yiping et al. 2009, p. 2, p. 6) and as such is an exception of the so called “Law of demand” (Franco 2015, p. 557).

The theory suggests that “Giffen goods” can be primarily observed in the setting of low-income levels and basic goods or staple food (Haagsma 2012, p. 12). But more recent research suggests, that the “Giffen phenomenon” - which characterizes the Giffen behaviour with respect to a particular commodity - can be found at different income levels and for different kind of goods, under more realistic market assumptions (Franco 2015, p. 557, Haagsma 2012, Jensen and Miller 2008, p. 1558).

Zhu (2016) as well suggests that Giffen goods are not restricted to inferior food and low-income households but can occur in the case of superior food and wealthy households as well. His study on the demand of meat and wheat during the Chinese famine even states, that superior food is more likely to be a “Giffen good” and is more likely found in wealthy households as “these
households have high levels of both income and preferences for taste” (Zhu 2016, p. 13-20). Based on the findings of Jensen and Miller (2001), Mckenzie (2002) examines in his paper if Tortillas qualify as a “Giffen good”, but his findings suggest that Tortillas do not, but can be seen as an inferior good for individuals with higher income. He as well states, that the “Giffen phenomenon” occurs more often in markets with less substitute opportunities.

For Spain Franco (2015) examines “Giffen behaviour” on the Spanish vegetable market during the financial crisis. He establishes the assumption that the income and substitution effect do not happen at the same time but after one another, which allows to analyse the change in purchasing power and relative price changes separately (Franco 2015, pp. 564f.). Considering simultaneous supply and demand changes he describes eight different optional situations (based on variations of the elasticity of demand and supply) which he suborders into three different phenomena: “Giffen-based degrowth”, “Giffen-based consumption” and “Giffen-based innovation”. He then applies his approach using Spanish vegetable prices and consumption data. He finds “Giffen behaviour” for onions, green beans, potatoes, lettuce, lemons, and apples, but the most interesting insight is, that the results are different when analysing data for total of Spain or separately for different regions of Spain. He states that the lack of disaggregated data makes it much more difficult to actually observe “Giffen behaviour” and suggests to analyse the “Giffen phenomenon” on a more disaggregated level for goods that satisfy the same category of need.

**Research Objective**

This paper wants to analyse if “Giffen behaviour” could be observed in the context of alcoholic (wine, beer, spirits) and non-alcoholic beverages in the case of Spain. Based on the suggestions of Franco (2015) data from total of Spain and from four different provinces of Spain is analysed. These provinces can be clustered into two high income and two low income parts of Spain in order to find in which parts Giffen-behaviour is more likely to be observed and for what kind of beverages.

**Data**

The data on annual consumption and on average prices for Spain and the four separate regions for the years of 2000-2021 are obtained from the Spanish Annual Consumption Panel that is published online.
There is separate data for red/white/rose wine, separate data for still and sparkling wine, for normal beer, craft beer and alcohol-free beer and for different kind of spirits and non-alcoholic beverages.

Methods

Descriptive statistics are applied first, then price elasticities are estimated and then OLS regression is applied to estimate (upward or downward sloping) demand curves.

Results

The results are preliminary. There are years of positive price elasticities of demand for all beverages, but especially for wine. For wine in several years upward sloping demand curves can be observed. This is more obvious in the higher income parts of Spain.

The results can be contrasted to research suggesting a Veblen effect for (fine) wine. This paper suggests that it might be possible, that in times of inflation there could be as well some kind of Giffen behaviour among (higher income) consumers, who have a high preference for wine.

For future research it will be interesting to extent this paper by adding and analysing data from other countries.

References


