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WEALTH MANAGEMENT

Term of the Week- Veblen Goods

A Veblen good is a product which sees an increase in demand when the price of the product increases. This is contrary to the usual outcome of price increases, where the increase in a product's price results in falling demand.

Veblen goods are extremely high-quality goods, very exclusive and often seen as a status symbol.

It is the exclusivity and high quality of the product that makes it more attractive the more expensive it is. There is a demand for Veblen goods because they have a higher utility (people feel a greater sense of happiness owning one) than normal goods and therefore the increased price is deemed worth paying.

This is particularly relevant at the present time, as potential tariffs will increase the price of a variety of different goods – leading to falling demand and potentially lower earnings for the companies that produce them.

For example, there is a limit to the price consumers are willing to pay for an automobile manufactured by companies like BMW, General Motors, Toyota or Ford before demand falls. On the other hand, a company such as Ferrari has much more pricing power as they have carefully crafted a brand image and product range over many decades, making the cars much sought after and a status symbol for many. A carefully limited supply means not everyone can have a Ferrari.

Other examples are the luxury goods produced by the French Conglomerate LVMH, or the single malt scotch whiskey produced by the Scottish distiller Macallan.



Chart showing the demand increasing for a Veblen good as the price increases, and the demand decreasing for a normal good as the price increases (does not look at elasticity).

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