

Inequality and poverty

Chapter 72 – March, 2017

THE DISTRIBUTION OF RESOURCES IN A CAPITALIST MARKET ECONOMY

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 - ▶ corrects the allocation of resources that are issued from the market mechanism (*sub-optimal* from equality viewpoint)

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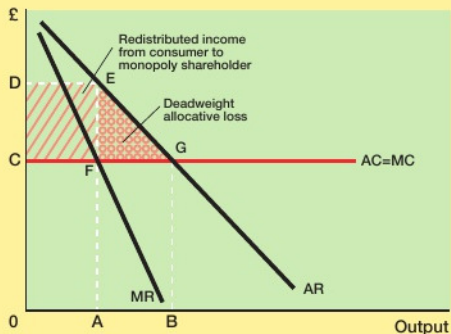
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- ▶ the *degree of competition* in product markets:

ALLOCATIVE AND DISTRIBUTIVE EFFECTS OF MONOPOLY

Allocative and distributive effects of monopoly

If the industry is perfectly competitive, it will produce at OB where price = MC. If it were a multi-plant monopolist, it would produce at OA where MC = MR. EFG is the deadweight allocative loss to society. CDEF is the total 'tax' of the monopolist on the consumer. It results in a redistribution of income from consumer to shareholder.



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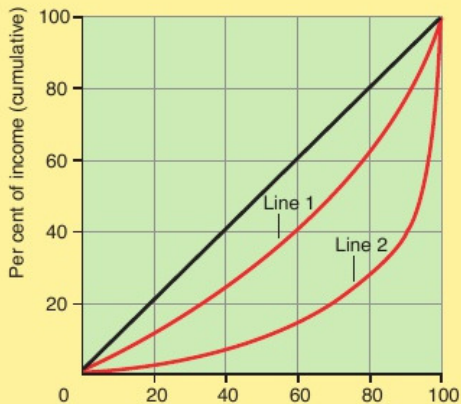
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 - ▶ inheritance:
 - ▶ chance:

MEASURING INEQUALITY

LORENZ CURVE

Lorenz curves

A Lorenz curve shows the degree of inequality of income in a society. The further the curve is from the 45° line, the greater the degree of inequality.



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- ▶ *if* Gini coefficient = 1 *then* one person has all and the others have nothing
- ▶ *if* Gini coefficient = 0 *then* every person has equal income

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 - ▶ relative poverty is present in all societies → households at bottom of income distribution
 - ▶ one measure (UK, EU): number of households on less than 60% of median household income

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- ▶ *physical capital* and *intellectual capital*

THE EFFECTS OF POVERTY

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- ▶ *absolute poverty*: ill health, death
- ▶ *relative poverty*: ill health, low self-esteem, less control over life, less choices for work, ...

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 1. *market mechanism* may change the distribution (i.e., growth in minimum wage jobs)
 2. *government intervention* may change the distribution (i.e., taxation, benefits)

HORIZONTAL AND VERTICAL EQUITY

- ▶ horizontal equity:

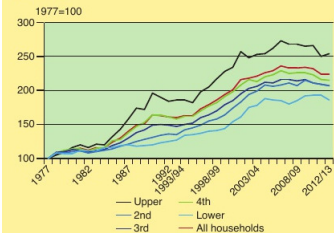
HORIZONTAL AND VERTICAL EQUITY

- ▶ horizontal equity:
- ▶ vertical equity:

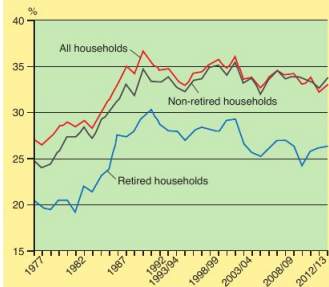
EXTRACT 1: TRENDS IN THE DISTRIBUTION OF INCOME



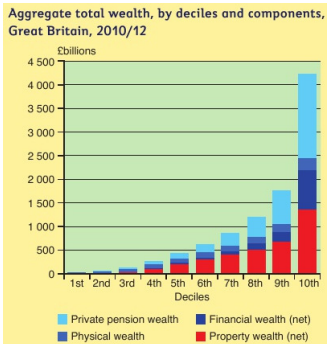
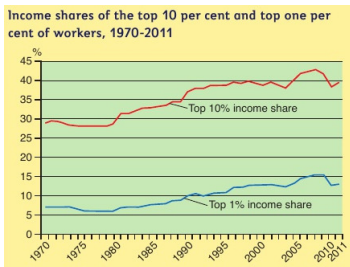
Index of household disposable income, 1977 to 2012-13; 1977=100



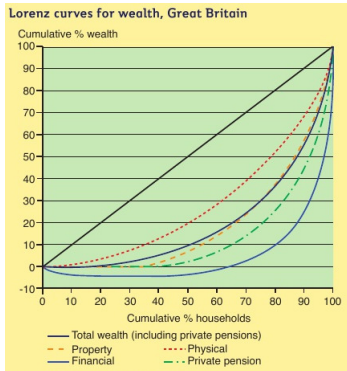
Gini coefficients for the distribution of income, UK, 1977 to 2012-13



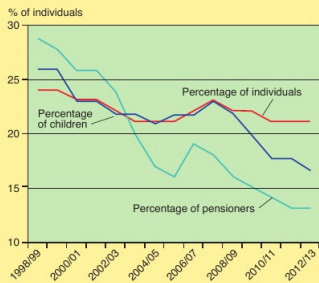
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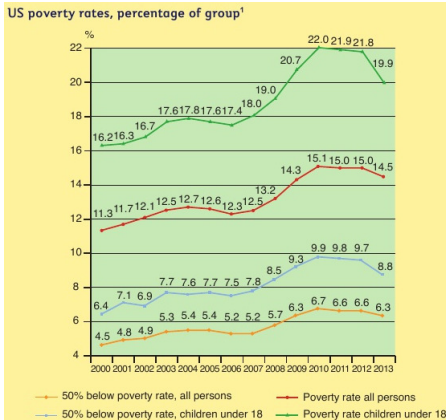
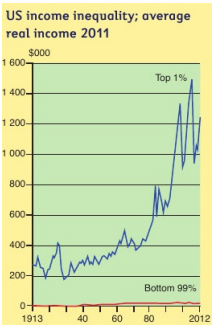
EXTRACT 1: TRENDS IN THE DISTRIBUTION OF INCOME



Percentage of all individuals, pensioners and children in relative poverty (at or below 60 per cent of median income), 2012-13¹



EXTRACT 2: ABSOLUTE AND RELATIVE POVERTY



KEYTERMS

- ▶ absolute poverty:

KEYTERMS

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- ▶ equity:

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- ▶ vertical equity:

KEYTERMS

REVISION (CHAPTER 27)

- ▶ aggregate supply curve:

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- ▶ full capacity:
- ▶ long-run aggregate supply curve:
- ▶ short-run aggregate supply curve:
- ▶ supply-side shocks:

KEYTERMS

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- ▶ circular flow of income:

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- ▶ closed economy:

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- ▶ circular flow of income:
- ▶ closed economy:
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- ▶ injections:
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- ▶ open economy:
- ▶ wealth:

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- ▶ circular flow of income:
- ▶ closed economy:
- ▶ income:
- ▶ injections:
- ▶ national income:
- ▶ open economy:
- ▶ wealth:
- ▶ withdrawals or leakages:

KEYTERMS

REVISION (CHAPTER 30)

- ▶ marginal propensity to import (MPM):

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- ▶ transfer payments:
- ▶ value and volume of national income:

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- ▶ demand-side shock:
- ▶ depression or slump:
- ▶ downturn:
- ▶ economic growth:

KEYTERMS

REVISION (CHAPTER 32)

- ▶ actual growth:
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- ▶ depression or slump:
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- ▶ economic growth:
- ▶ economic recovery:

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- ▶ economic recovery:
- ▶ export-led growth:

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- ▶ economic recovery:
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- ▶ hysteresis:

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- ▶ output gap:
- ▶ potential growth:

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- ▶ potential growth:
- ▶ recession:

KEYTERMS

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- ▶ economic recovery:
- ▶ export-led growth:
- ▶ hysteresis:
- ▶ output gap:
- ▶ potential growth:
- ▶ recession:
- ▶ spare capacity:

KEYTERMS

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- ▶ depression or slump:
- ▶ downturn:
- ▶ economic growth:
- ▶ economic recovery:
- ▶ export-led growth:
- ▶ hysteresis:
- ▶ output gap:
- ▶ potential growth:
- ▶ recession:
- ▶ spare capacity:
- ▶ supply-side shock:

KEYTERMS

REVISION (CHAPTER 32)

- ▶ actual growth:
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- ▶ depression or slump:
- ▶ downturn:
- ▶ economic growth:
- ▶ economic recovery:
- ▶ export-led growth:
- ▶ hysteresis:
- ▶ output gap:
- ▶ potential growth:
- ▶ recession:
- ▶ spare capacity:
- ▶ supply-side shock:
- ▶ trade or business or economic cycle: