



Section 7: Inequality

Measuring inequality

Income inequality
 -Lorenz curve
 -closer to line of equality the more equal distribution of income is

Gini coefficient(measures positive concept of inequality)
 -GC=0 perfect equality
 -GC=1 perfect inequality (one person earns all income)
 -GC=A/A+B
 -for wealth in UK=0.65
 -for income in UK=0.35

Equity
 -is normative concept
 -about fairness and circumstances which is subjective and requires a value judgement
 -Horizontal Equity: people with same circumstances earn are treated fairly(earning same amount=taxed the same amount)
 -Vertical Equity: people with different circumstances are treated fairly but differently(earning more income=taxed more)

Impact of inequality

Pros
 -incentives to work harder
 -provides incentives to get into work rather than claim benefits
 -encourages enterprise for those who have funds to start a business
 -trickle-down effect - where rise spends creating income for the poor
 due to rich spending creating income for poor

Cons
 -Absolute and relative poverty increases, poverty cycle can become embedded/ self perpetuating (poor families have less access to healthcare, high debts due to dependence on paydays lenders)
 -Restricts EG- poor people don't spend
 -Trickle-down effect may not occur as rich have high MP to save
 -As income rise more spent on imports leaving circular flow
 -crime and social unrest=more spending on security

Income inequality (flow variable)

Sources
 0-Wages and salary
 1-Rental income from property
 2-Interest from savings
 3-profits from shareholders(dividends)

Factors affecting income inequality(causes)
 -progressive taxation
 -proportion of people on state benefits
 -Wage and salary differentials
 - distinction between 0-earned (from wages) and 1-unearned incomes (unearned income could be rent from property or 2-interest from savings) so is influenced by wealth
 3-ownership of stocks and shares increases wealth and gives opportunity to earn more income from profits of shareholders so is influenced by wealth

Wealth inequality (stock variable)

Sources
 -Wealth in pension schemes
 1-Property
 2-Savings in bank accounts
 3-shares and stocks

Factors affecting distribution of wealth inequality(causes)
 -ability to benefit from capital gains
 -private pension assets
 -Inheritance
 -Wealth vs income taxation
 -Property ownership

More unevenly distributed than income:
 -wealth from shares often reinvested to gain even more profits
 -assets tend to increase in value more than income
 -Wealth isn't taxed in UK