

Course: Econ 634, Fall 2017

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Homework No 1.

1. Problem 4.

Suggested Answer:

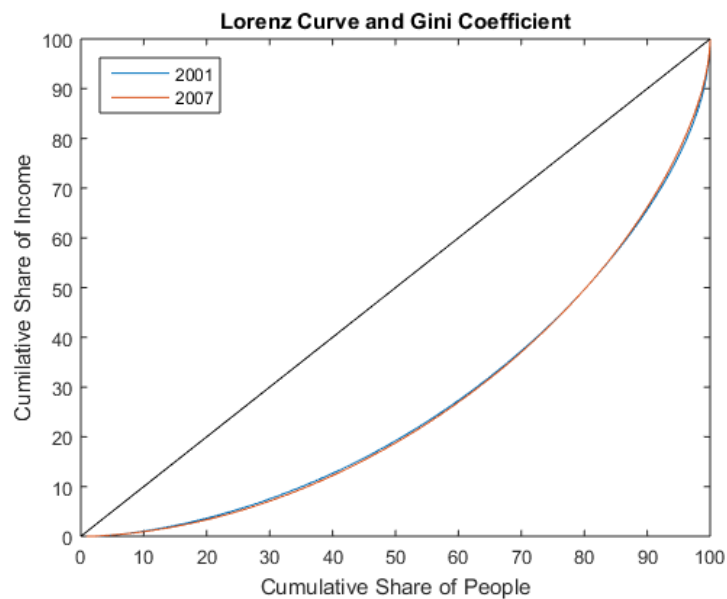
Using the information for Total Family Income in the PSID¹, the transition matrix is:

	1st	2nd	3rd	4th	5th
1st	0.6247	0.2395	0.0813	0.0393	0.0152
2nd	0.2367	0.4057	0.2358	0.0961	0.0258
3rd	0.0780	0.2232	0.3875	0.2387	0.0726
4th	0.0404	0.1004	0.2215	0.4054	0.2323
5th	0.0170	0.0296	0.0762	0.2224	0.6547

the Gini Coefficient,

2001	2007
0.4631	0.4675

and the Lorenz Curve,



¹Variables ER20456 and ER41027 for years 2001 and 2007.