## Key Terms

earned income tax credit (EITC)

a method of assisting the working poor through the tax system

effective income tax

percentage of total taxes paid divided by total income

estate tax

a tax imposed on the value of an inheritance

income

a flow of money received, often measured on a monthly or an annual basis

income inequality

when one group receives a disproportionate share of total income or wealth than others

Lorenz curve

a graph that compares the cumulative income actually received to a perfectly equal distribution of income; it shows the share of population on the horizontal axis and the cumulative percentage of total income received on the vertical axis

Medicaid

a federal–state joint program enacted in 1965 that provides medical insurance for certain (not all) people with a low-income, including those near the poverty line as well as those below the poverty line, and focusing on low-income families with children, the low-income elderly, and people with disabilities

poverty

the situation of being below a certain level of income one needs for a basic standard of living

poverty line

the specific amount of income one requires for a basic standard of living

poverty rate

percentage of the population living below the poverty line

poverty trap

antipoverty programs set up so that government benefits decline substantially as people earn more income—as a result, working provides little financial gain

progressive tax system

a tax system in which the rich pay a higher percentage of their income in taxes, rather than a higher absolute amount

quintile

dividing a group into fifths, a method economists often use to look at distribution of income

redistribution

taking income from those with higher incomes and providing income to those with lower incomes

safety net

the group of government programs that provide assistance to people at or near the poverty line

Supplemental Nutrition Assistance Program (SNAP)

a federally funded program, started in 1964, in which each month poor people receive SNAP cards they can use to buy food

wealth

the sum of the value of all assets, including money in bank accounts, financial investments, a pension fund, and the value of a home