## Self-Check Questions

[1](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-15#ch14mod01_sques01-solution).

Describe how each of these changes is likely to affect poverty and inequality:

1. Incomes rise for low-income and high-income workers, but rise more for the high-income earners.
2. Incomes fall for low-income and high-income workers, but fall more for high-income earners.

[2](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-15#ch14mod02_sques01-solution).

Jonathon is a single father with one child. He can work as a server for $6 per hour for up to 1,500 hours per year. He is eligible for welfare, and so if he does not earn any income, he will receive a total of $10,000 per year. He can work and still receive government benefits, but for every $1 of income, his welfare stipend is $1 less. Create a table similar to [Table 15.4](http://openstax.org/books/principles-microeconomics-3e/pages/15-2-the-poverty-trap#ch14mod02_tab04) that shows Jonathan’s options. Use four columns, the first showing number of hours to work, the second showing his earnings from work, the third showing the government benefits he will receive, and the fourth column showing his total income (earnings + government support). Sketch a labor-leisure diagram of Jonathan’s opportunity set with and without government support.

[3](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-15#ch14mod02_sques02-solution).

Imagine that the government reworks the welfare policy that was affecting Jonathan in question 1, so that for each dollar someone like Jonathan earns at work, his government benefits diminish by only 30 cents. Reconstruct the table from question 1 to account for this change in policy. Draw Jonathan’s labor-leisure opportunity sets, both for before this welfare program is enacted and after it is enacted.

[4](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-15#ch14mod03_sques01-solution).

We have discovered that the welfare system discourages recipients from working because the more income they earn, the less welfare benefits they receive. How does the earned income tax credit attempt to loosen the poverty trap?

[5](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-15#ch14mod03_sques02-solution).

How does the TANF attempt to loosen the poverty trap?

[6](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-15#ch14mod04_sques01-solution).

A group of 10 people have the following annual incomes: $24,000, $18,000, $50,000, $100,000, $12,000, $36,000, $80,000, $10,000, $24,000, $16,000. Calculate the share of total income that each quintile receives from this income distribution. Do the top and bottom quintiles in this distribution have a greater or larger share of total income than the top and bottom quintiles of the U.S. income distribution?

[7](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-15#ch14mod04_sques02-solution).

[Table 15.9](#ch14mod04_tab11) shows the share of income going to each quintile of the income distribution for the United Kingdom in 1979 and 1991. Use this data to calculate what the points on a Lorenz curve would be, and sketch the Lorenz curve. How did inequality in the United Kingdom shift over this time period? How can you see the patterns in the quintiles in the Lorenz curves?

|  |  |  |
| --- | --- | --- |
| Share of Income | 1979 | 1991 |
| Top quintile | 39.7% | 42.9% |
| Fourth quintile | 24.8% | 22.7% |
| Middle quintile | 17.0% | 16.3% |
| Second quintile | 11.5% | 11.5% |
| Bottom quintile | 7.0% | 6.6% |

Table 15.9 Income Distribution in the United Kingdom, 1979 and 1991

[8](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-15#ch14mod04_sques03-solution).

Using two demand and supply diagrams, one for the low-wage labor market and one for the high-wage labor market, explain how information technology can increase income inequality if it is a complement to high-income workers like salespeople and managers, but a substitute for low-income workers like file clerks and telephone receptionists.

[9](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-15#ch14mod04_sques04-solution).

Using two demand and supply diagrams, one for the low-wage labor market and one for the high-wage labor market, explain how a program that increased educational levels for a substantial number of low-skill workers could reduce income inequality.

[10](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-15#ch14mod05_sques01-solution).

Here is one hypothesis: A well-funded social safety net can increase economic equality but will reduce economic output. Explain why this might be so, and sketch a production possibility curve that shows this tradeoff.

[11](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-15#ch14mod05_sques02-solution).

Here is a second hypothesis: A well-funded social safety net may lead to less regulation of the market economy. Explain why this might be so, and sketch a production possibility curve that shows this tradeoff.

[12](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-15#ch14mod05_sques03-solution).

Which set of policies is more likely to cause a tradeoff between economic output and equality: policies of redistribution or policies aimed at the ladder of opportunity? Explain how the production possibility frontier tradeoff between economic equality and output might look in each case.

[13](http://openstax.org/books/principles-microeconomics-3e/pages/chapter-15#ch14mod05_sques04-solution).

Why is there reluctance on the part of some in the United States to redistribute income so that greater equality can be achieved?