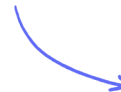


7. Income & Wealth Distribution

Income & Wealth Distribution / The Lorenz Curve & Gini Coefficient / The Problem of Poverty / Government Policies to Reduce Poverty & Inequity

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Total Marks

/69

- 1 In an economy, over the last decade, each of the top five decile groups has experienced a fall in their share of total income. In contrast, the bottom five decile groups have experienced a substantial increase in their share of total income.

It can be concluded that, over this period, the distribution of income is most likely to have become

- A. more equal.
- B. more equal but less equitable.
- C. more equitable.
- D. more equitable but less equal.

(1 mark)

- 2 All other things being equal, which one of the following would be most likely to result in a reduction in inequality in the distribution of income in the UK? An increase in the

- A. amount of government tax revenue.
- B. average standard of living.
- C. level of median income.
- D. share of income of the lowest quintile.

(1 mark)

- 3 Which one of the following policies is most likely to have an immediate effect in helping to reduce the amount of poverty in the UK?

- A. An increase in government subsidies for buyers of electric cars.
- B. A shift in the burden of taxation from direct to indirect taxes
- C. Setting a price floor for basic foods
- D. The introduction of a price ceiling for household energy

(1 mark)

- 4 The information below shows the changes in key economic indicators for a country over a period of one year.

Money GDP	Rate of inflation	Population increase	Gini coefficient
+6%	+4%	+1%	-8%

Which one of the following values for the Gini coefficient shows the greatest inequality?

- A. -0.5
- B. 0
- C. 0.5
- D. 1

(1 mark)

- 5 The economist Greg Mankiw has written that 'society faces a trade-off between efficiency and equity. Efficiency means that society is getting the maximum benefits from its scarce resources. Equity means that those benefits are distributed fairly among society's members. Often, when government policies are designed, these two goals conflict.'

Evaluate the view that government intervention to reduce inequality will lead to an improvement in economic welfare

(15 marks)

- Assess** the view that, in the UK, the consequences of wealth inequality are more damaging than the consequences of income inequality

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(25 marks)