An Example: Top One Percent - Quiz

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Question 1

1 point possible (graded)

From the Piketty-Saez graph shown below, it can be seen that between 1978 and 2013, the share of total income earned by the bottom 99% of the population _____, and that of the bottom 95% _____.

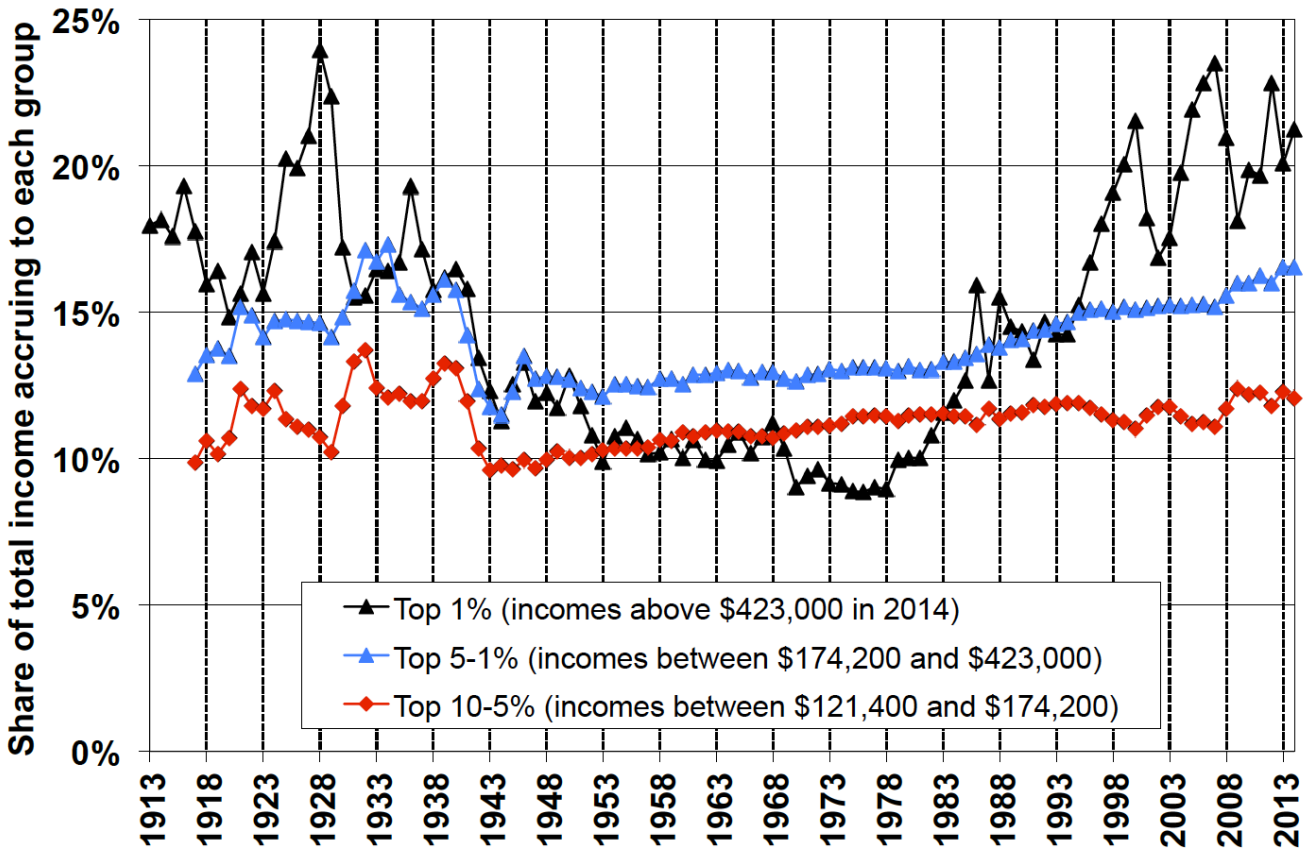

FIGURE 2
Decomposing the Top Decile US Income Share into 3 Groups, 1913-2014

a. decreased from roughly 82% to roughly 78%, decreased from roughly 69% to 61%

b. decreased from roughly 92% to roughly 78%, decreased from roughly 79% to 61%

c. decreased from roughly 92% to roughly 78%, decreased from roughly 87% to 83%

d. decreased from roughly 82% to roughly 78%, decreased from roughly 87% to 83%

Explanation

The top 1% income share increased from roughly 8% to 22%, and the income share going to between the top 5 and 1% increased from roughly 13% to 17%. Therefore the overall share of the top 5% increased from roughly 8+13=21% to 22+17=39%. Hence the bottom 99% share decreased from 100-8=92% to 100-22=78%. And the bottom 95% share decreased from 100-21=79% to 100-39=61%.

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Question 2

1 point possible (graded)

True or False: The reason why Piketty and Saez cannot directly use the IRS tax data to compute top income shares is that these data are only publicly available in the form of tabulations.

True

False

Explanation

True. For example, Piketty-Saez have information like “People paying between 30 and 35% in taxes have an average income of $200,000 and those paying between 35 and 45% have an average income of $500,000.” But the problem is that the cutoffs of the tax brackets do not coincide with the percentiles of the income distribution we are interested in (e.g. top 1%, top 5% etc). Therefore, they need to somehow interpolate the income distribution and instead use an interpolation technique exploiting properties of the Pareto distribution (which will be discussed in the next segment).

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Discussion

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