

Exercise walk-through

8.2

Equity and redistribution of income and wealth

A-Level Economics

Equal cash and fair opportunity

Two households each receive £100

One household needs costly disability support. Are their payments equal? Does this establish equal opportunities or a fair outcome?

An efficient allocation maximises net social benefit under its assumptions. It need not satisfy every standard of fairness.

Equal cash and fair opportunity

Two households each receive £100

One household needs costly disability support. Are their payments equal? Does this establish equal opportunities or a fair outcome?

The cash amounts are equal. Different needs may prevent equal opportunity.

Equity requires a judgement about fairness; **equality** requires a stated comparison.

An efficient allocation maximises net social benefit under its assumptions. It need not satisfy every standard of fairness.

Income and net wealth use different units

Monthly pay £2000; home £150000; mortgage £100000

Classify the flow and the stock. Calculate net housing wealth before other assets and debts.

A picture of different homes does not measure **inequality** or prove its cause. Do not add monthly income to an asset stock.

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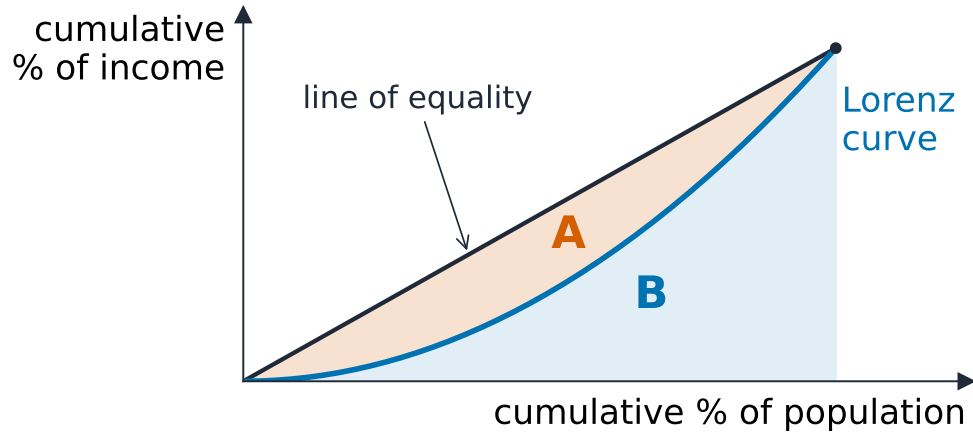
Classify the flow and the stock. Calculate net housing wealth before other assets and debts.

Income is £2000 per month. **Wealth** is measured at a date:

$$W_{\text{housing}} = \text{assets} - \text{debt} = 150000 - 100000 = \text{£}50000.$$

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The Lorenz curve and Gini area ratio



Gini = $A/(A + B)$ · 0 = equal, 1 = most unequal

Lorenz curve : cumulative income share against cumulative population, poorest first.

Gini coefficient = $\frac{A}{A + B}$

Zero: perfect equality. Nearer one: greater overall inequality.

Exercises 2.1-2.3

2.1 State the difference between *equity* and *equality*.

[2]

2.2 State what a Gini coefficient of 0 means.

[1]

2.3 State two policies that redistribute income.

[2]

Exercises 2.1-2.3

2.1 State the difference between *equity* and *equality*. [2]

2.1

- equity means fairness (which may not be an equal share); equality means everyone getting the same (2 for a clear difference; 1 for a partial idea)

2.2 State what a Gini coefficient of 0 means. [1]

2.2

- perfect equality – every person has the same income (1)

2.3 State two policies that redistribute income. [2]

2.3

- any two of: progressive taxation; benefits / transfer payments; free state services (1 + 1)

Exercises 3.1-3.2

3.1 A Lorenz curve that lies **further** from the line of equality shows:

[1]

☐

- A lower inequality and a lower Gini coefficient
- B higher inequality and a higher Gini coefficient
- C perfect equality
- D a fall in total income

3.2 Using a Lorenz-curve diagram, explain how the Gini coefficient measures income inequality.

[8]

Exercises 3.1-3.2

3.1 A Lorenz curve that lies **further** from the line of equality shows:

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3.1 B

- A curve further from the diagonal means more inequality and a higher Gini

3.2 Using a Lorenz-curve diagram, explain how the Gini coefficient measures income inequality.

[8]

3.2

- [8] AO1 1 + **AO3 diagram up to 4** (line of equality, sagging Lorenz curve, areas A and B) + AO2/AO3 up to 3 – the Lorenz curve plots cumulative income share against cumulative population share; the Gini is the area between the curve and the line of equality (A) divided by the whole area under the line (A + B)
- the more the curve sags, the larger A, so the higher the Gini and the greater the inequality

Exercise 3.3

3.3 Discuss whether redistributing income from rich to poor always benefits an economy. [12]

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3.3

- [12] AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** redistribution reduces poverty, can raise total consumption (the poor spend more of their income) and improves social outcomes. **Against:** high taxes and benefits can weaken the incentive to work and invest, and wealth is hard to tax (it can be hidden or moved abroad). Judgement: some redistribution helps, but going too far risks lower growth – the net benefit depends on how the policies are designed and the size of the incentive effects