Exercise walk-through

Addressing income and wealth inequality ▪ 3.3

eXercise

You must be able to

- distinguish income from wealth
- explain the causes of inequality
- analyse policies (progressive tax, benefits, state provision) and the trade-off with incentives

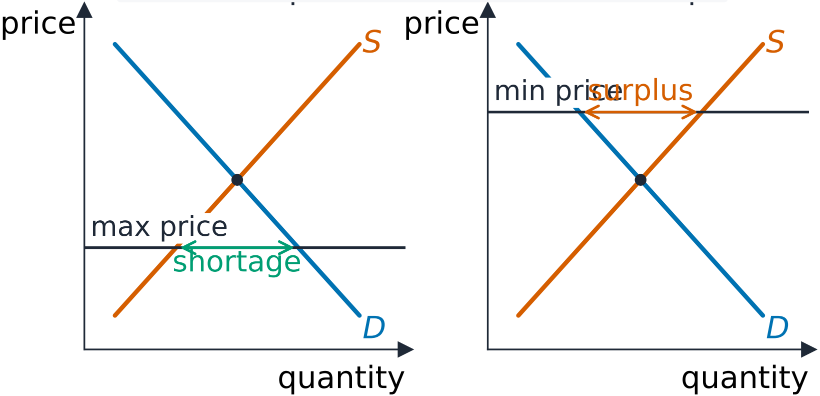
Method — Reducing inequality

- **Income 收入** = a **flow 流量** (wages, rent, interest over a period); **wealth 财富** = a **stock 存量** (assets owned at a point in time).
- **Causes:** differences in skills/wages, ownership of wealth, inheritance, unemployment.
- **Policies: progressive tax 累进税** (higher % from higher incomes), **benefits/transfer payments 转移支付**, **state provision 政府提供** of free services → **redistribution 再分配**.
- **Trade-off:** very high taxes and benefits may weaken the **incentive 激励** to work.

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

Method — Reducing inequality

max price → shortage · min price → surplus



A minimum wage is a minimum price set above equilibrium

Practice 2.1 ▪ 2 marks

State the difference between *income* and *wealth*.

Solution 2.1

Method: Reducing inequality

Worked steps

income is a flow of money received over a period (wages, rent); wealth is the stock of assets owned at a point in time (houses, shares) (2 for a clear difference; 1 for a partial idea).

Practice 2.2 ▪ 2 marks

Define the term *progressive tax*.

Solution 2.2

Worked steps

a tax that takes a larger percentage of income from those on higher incomes than from those on lower incomes (2 for a clear definition; 1 for a partial idea).

Practice 2.3 ▪ 2 marks

State two policies a government can use to reduce inequality.

Solution 2.3

Method: Reducing inequality

Worked steps

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

Exam-style 3.1 ▪ 1 mark

A tax is **progressive** if, as income rises:

- **A** the percentage paid in tax rises
- **B** the percentage paid in tax falls
- **C** the percentage paid in tax stays the same
- **D** the amount paid in tax falls

Solution 3.1

Method: Reducing inequality

A the percentage paid in tax rises ✓

B the percentage paid in tax falls

C the percentage paid in tax stays the same

D the amount paid in tax falls

Worked steps

A. A progressive tax takes a rising percentage as income rises.

Exam-style 3.2 ▪ 6 marks

Explain two policies a government could use to reduce income inequality.

Solution 3.2

Method: Reducing inequality

Worked steps

[6] For **each** of two policies: AO1 1 + AO3 up to 2 — e.g. *progressive tax*: higher earners pay a larger share → after-tax incomes are closer together → the gap narrows. *Benefits*: cash transfers raise the income of the poorest → less poverty. Maximum 3 each.

Exam-style 3.3 ▪ 12 marks

Discuss whether reducing income inequality always benefits an economy.

Solution 3.3

Method: Reducing inequality

Worked steps

[12] AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** less inequality can raise consumption (the poor spend more of their income), improve health and reduce social problems. **Against:** high taxes and generous benefits may weaken the incentive to work and invest, and can be costly. Judgement: some redistribution helps, but going too far risks lower growth — the best level depends on how the policies are designed and the size of the incentive effects.