

Exercise walk-through

Equity and redistribution of income and wealth ■ 8.2

eXercise

You must be able to

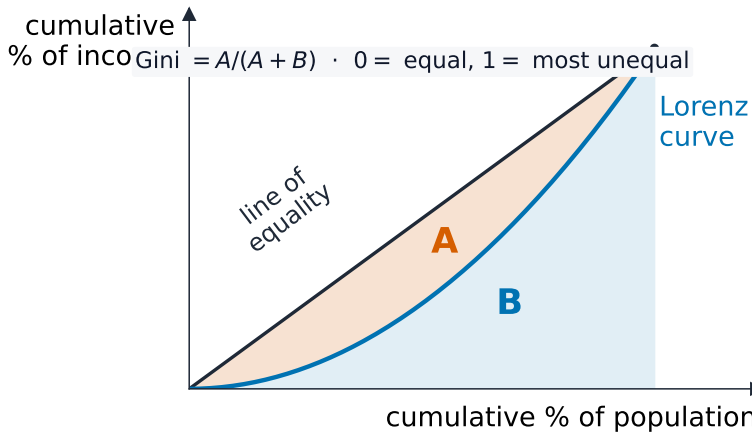
- distinguish equity from equality
- interpret the Lorenz curve and Gini coefficient
- analyse policies to redistribute income and wealth

Method — Measuring inequality

- **Equity** 公平 = fairness (not always equal); **equality** 平等 = the same for all.
- **Lorenz curve** 洛伦兹曲线: a sagging curve shows inequality; the diagonal = perfect equality.
- **Gini coefficient** 基尼系数: 0 (perfect equality) to 1 (one person has all) — higher = more unequal.
- **Policies: progressive tax** 累进税, **benefits/transfer payments** 转移支付, free state services.

Answer shapes: an **Explain [up to 8]** answer may use a Lorenz diagram (AO3); **Discuss [12]** adds a judgement (AO4).

Method — Measuring inequality



The more the Lorenz curve sags below the line of equality, the higher the Gini

Method — Measuring inequality

a fair outcome is not always an equal one

equality

everyone gets
the *same* share

equity

everyone gets a
fair share (not
always the same)

Practice 2.1 ■ 2 marks

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

Solution 2.1

Method: Measuring inequality

Worked steps

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).

Practice 2.2 ■ 1 mark

State what a Gini coefficient of 0 means.

Solution 2.2

Method: Measuring inequality

Worked steps

perfect equality — every person has the same income (1).

Practice 2.3 ■ 2 marks

State two policies that redistribute income.

Solution 2.3

Method: Measuring inequality

Worked steps

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

Exam-style 3.1 ■ 1 mark

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

- 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

Solution 3.1

Method: Measuring inequality

- 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

Worked steps

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

Exam-style 3.2 ■ 8 marks

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

Solution 3.2

Method: Measuring inequality

Worked steps

[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.

Exam-style 3.3 ■ 12 marks

Discuss whether redistributing income from rich to poor always benefits an economy.

Solution 3.3

Method: Measuring inequality

Worked steps

[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.