10 A government has a policy where income tax is paid only after the first $20 000 of income has been earned.

What would make the government's policy more equitable?

A Decreasing the threshold for paying income tax to $10 000 for all taxpayers.

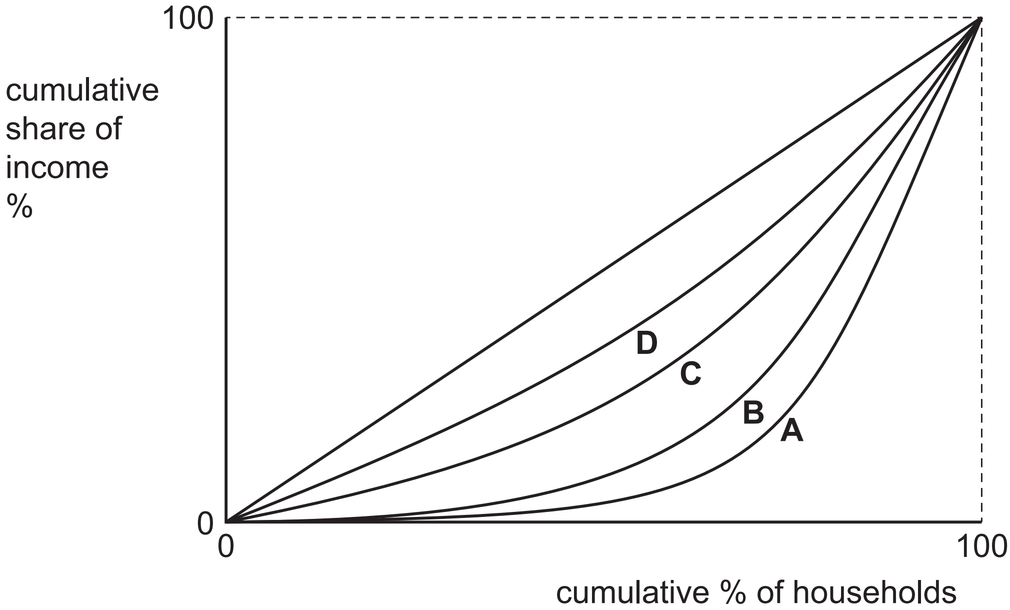
B Integrating the tax and welfare systems by introducing a negative income tax.

C Introducing universal benefits that are available to all citizens irrespective of wealth.

D Means testing all benefits so that they remain the same even if real incomes fall.

28 The diagram shows a Lorenz curve of the distribution of income of households for a country.

Which curve shows the most equal distribution of income of households?



1 Why would an economy wish to achieve economic efficiency?

A to achieve an equal distribution of income

B to achieve full employment

C to ensure resources are not wasted

D to ensure international competitiveness

23 A government reduces both the income tax paid by all earners and the amount of means-tested benefits paid to those receiving low or no incomes.

What is most likely to be its objective?

A a more equitable income distribution

B a reduction in the rate of inflation

C a reduction in the trade deficit

D an increase in the rate of economic growth

30 The table shows the value of the Gini coefficient for an economy from 2018 to 2020.

year	Gini coefficient
2018	0.29
2019	0.28
2020	0.27

What is most likely to explain the change in the value of the Gini coefficient between 2018 and 2020?

A an increase in indirect taxes

B an increase in long-term unemployment

C an increase in the national minimum wage

D an increase in population

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26 What are the variables identified on the axes of a Kuznets curve diagram?

	vertical (Y) axis variable	horizontal (X) axis variable
A	cumulative % of income	cumulative % of families
B	measure of inequality	income per capita
C	measure of standard of living	economic growth rate
D	income per capita	optimum population

1 Inequality and globalisation

A government commission published a report saying that global poverty and inequality were worsening and there was a risk that the gap between the rich and the poor would increase.

But, according to a newspaper, a lot of what is said about inequality is wrong. It overlooks the fact that the past 50 years saw a period of dramatic reduction in global inequality. The normal measurement of relative inequality is the Gini coefficient. The figure for global inequality in 1975 was 0.75, in 2020 it was 0.72 and in 2022 it was 0.67.

It is important to understand this trend rather than make the mistake of the commission.

The fall in global inequality should not come as a surprise. For about two hundred years the benefits of industrialisation went mainly to countries in Europe and North America. Income inequality between these countries and poorer countries worsened. The spread of globalisation in recent decades has meant this difference has lessened. Countries such as China and India have benefited from large increases in per capita (average) income, as shown in Table 1.1.

Table 1.1 Per capita (average) income and Gini coefficient for China and India 1990 and 2016

	Per capita (average) income (US$)		Gini coefficient	
	1990	2016	1990	2016
China	<1 000	>13 000	0.32	0.38
India	<1 200	>7 000	0.32	0.36

With such an increase in per capita incomes maybe some level of inequality does not matter. Indeed, it might be a necessary condition for economic growth. Instead of concentrating on eliminating inequality perhaps the focus should be on the absolute position of the poorest.

If the attention is on the relief of poverty rather than the wealth of the richest, improvements can be seen. Life expectancy has increased, most noticeably by ten years in the past two decades in the poorest region of sub-Saharan Africa. Literacy rates have also increased. Those in absolute poverty across the world have fallen from more than a third to under a tenth of the world's population. And all this while the world's population has increased.

Critics of globalisation and foreign direct investment (FDI) by multinational companies point to the possible negative environmental effects, the weakening of individual cultures and the reliance on international financial institutions that can fail. They also claim there can be exploitation of workers leading to greater wage inequality and possible increases in domestic unemployment as cheaper goods are imported.

Source: The Times*, 23 August 2021*

(a) The article refers to the Gini coefficient. With the help of a diagram explain the link between a Gini coefficient and a Lorenz curve. [5]

(b) **(i)** Distinguish between equity and equality. [2]

(ii) 'But, according to a newspaper, a lot of what is said about inequality is wrong.'

Analyse whether there is a conflict between what the newspaper wrote about changes in equality and Table 1.1. [5]

(c) With reference to the article, explain the idea of globalisation and assess whether there is enough evidence to conclude that globalisation has a net benefit for everyone. [8]

Section B

Answer **one** question.

EITHER