

Exercise walk-through

6.5

Inequality

AP Microeconomics

Income, wealth, inequality and poverty answer different questions

Two households

A earns \$100,000 this year and has net assets \$50,000. B earns \$80,000 and has net assets \$1,000,000. Which has greater income? Which has greater wealth?

Inequality compares shares. Poverty concerns a living-standard threshold. Neither current income nor inequality alone establishes the others.

Income, wealth, inequality and poverty answer different questions

Two households

A earns \$100,000 this year and has net assets \$50,000. B earns \$80,000 and has net assets \$1,000,000. Which has greater income? Which has greater wealth?

A has the greater current income flow. B has the greater wealth stock. The **income distribution** describes income shares over a stated period.

Inequality compares shares. Poverty concerns a living-standard threshold. Neither current income nor inequality alone establishes the others.

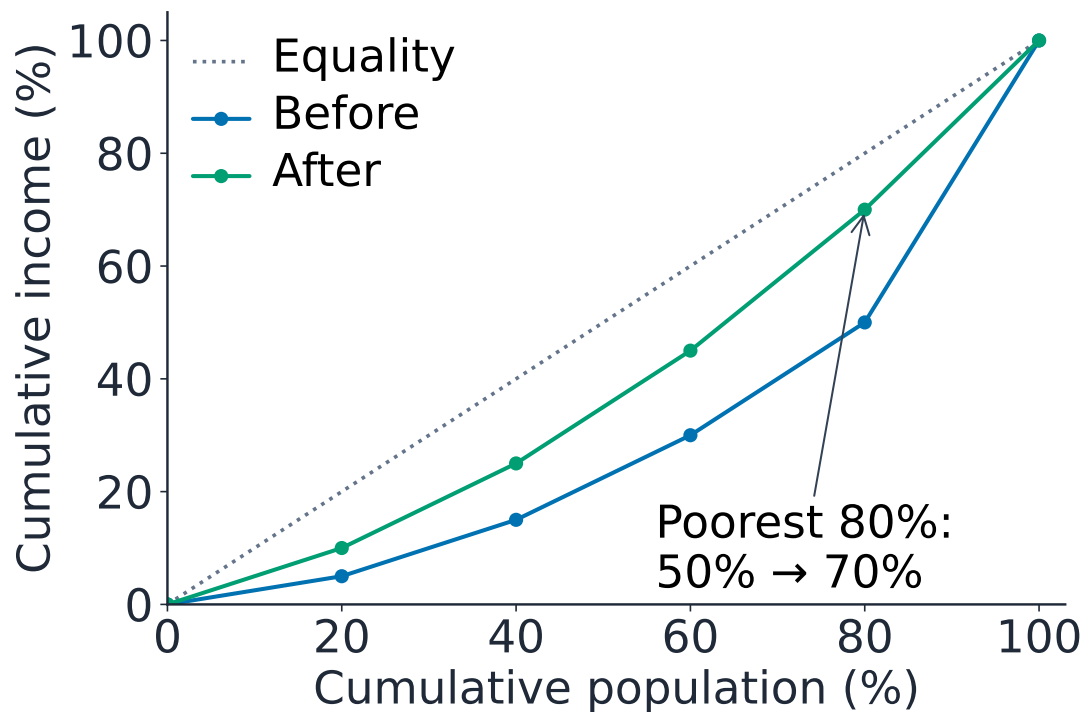
Read all five groups before comparing distributions

Five equally sized groups, ordered from lowest to highest income. These are illustrative shares, not a policy forecast.

Group	Before	After
First fifth	5%	10%
Second fifth	10%	15%
Third fifth	15%	20%
Fourth fifth	20%	25%
Fifth fifth	50%	30%

Before revealing the graph: what shares do the poorest 40% and poorest 80% receive in each distribution?

Interpret the Lorenz curve; no Gini calculation required



The **Lorenz curve** shows cumulative income against cumulative population. Poorest 40%: 15% → 25%. Poorest 80%: 50% → 70%. The after curve is closer to equality and does not cross the before curve.

What an inequality measure can and cannot establish

Gini coefficient : zero represents equality; values closer to one represent more inequality under the usual nonnegative-income convention.

A claim to evaluate

“The poorest 20% receive 5% and the richest 20% receive 50%, so the Gini coefficient is exactly 0.6.”

Use comparable definitions and populations. AP requires interpreting these measures, not drawing Lorenz curves or calculating Gini coefficients.

Exercises 2.1-2.3

2.1 State the difference between income and wealth inequality.

[2]

2.2 State what a Gini coefficient of 0 means.

[1]

2.3 State the difference between a progressive and a regressive tax.

[2]

Exercises 2.1-2.3

2.1 State the difference between income and wealth inequality. [2]

2.1

- income inequality is about the flow of earnings; wealth inequality is about the stock of accumulated assets

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

2.2

- perfect equality (everyone has the same income)

2.3 State the difference between a progressive and a regressive tax. [2]

2.3

- a progressive tax takes a larger share of income as income rises; a regressive tax takes a smaller share as income rises

Exercises 3.1-3.2

3.1 A Lorenz curve plots the distribution of

[1]

☐

A prices

B income

C output

D interest rates

3.2 A progressive tax takes a _____ share of income as income rises.

[1]

☐

A smaller

B larger

C constant

D zero

Exercises 3.1-3.2

3.1 A Lorenz curve plots the distribution of

[1]

☐

A prices

B income

C output

D interest rates

3.1 B

- income.

3.2 A progressive tax takes a _____ share of income as income rises.

[1]

☐

A smaller

B larger

C constant

D zero

3.2 B

- larger.

Exercise 3.3 (a)

3.3 A country's Gini coefficient rises from 0.30 to 0.45.

(a) State whether inequality rose or fell.

[1]

Exercise 3.3 (a)

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(a) State whether inequality rose or fell.

[1]

(a)

- it rose

Exercise 3.3 (b)

3.3 A country's Gini coefficient rises from 0.30 to 0.45.

(b) State what a Gini of 0 would mean.

[1]

Exercise 3.3 (b)

3.3 A country's Gini coefficient rises from 0.30 to 0.45.

(b) State what a Gini of 0 would mean.

[1]

(b)

- perfect income equality

Exercise 3.3 (c)

3.3 A country's Gini coefficient rises from 0.30 to 0.45.

(c) Name a tax structure that reduces inequality.

[1]

Exercise 3.3 (c)

3.3 A country's Gini coefficient rises from 0.30 to 0.45.

(c) Name a tax structure that reduces inequality.

[1]

(c)

- a progressive tax