

8.2 Poverty, public finance and development

Name: _____ Class: _____ Date: _____

Total: 36 marks

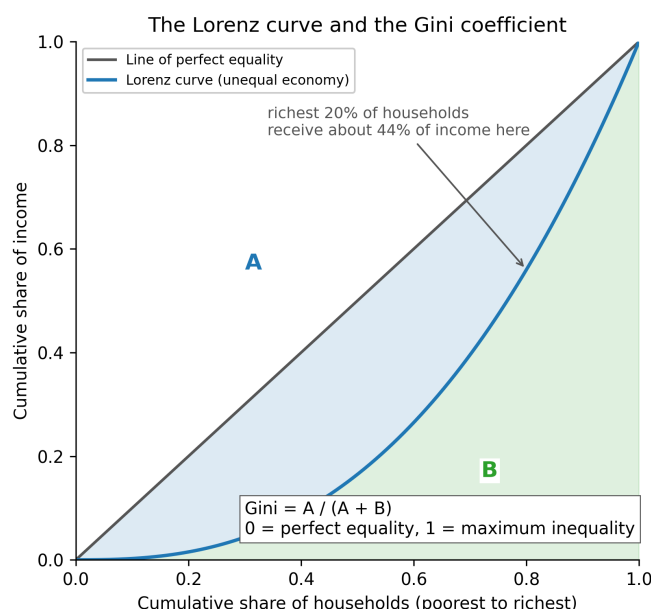
KEY WORDS absolute poverty • relative poverty • Lorenz curve
• Gini coefficient • fiscal deficit • national debt

Objective

Measure inequality with Lorenz curves and Gini coefficients, analyse fiscal choices, and evaluate development constraints and strategies at full IA2 essay standard.

1 Key knowledge and worked examples

Absolute poverty is life below a fixed minimum standard; **relative poverty** is life far below the society's median income. The **Lorenz curve** plots cumulative income share against cumulative household share; the **Gini coefficient** is $A/(A+B)$: 0 means perfect equality, 1 maximum inequality.



Worked example. A five-person economy has incomes 10, 20, 30, 60, 80 (total 200). Cumulative income shares, poorest first: 5%, 15%, 30%, 60%, 100%. Plot those points against 20%, 40%, 60%, 80%, 100% of people and join them: the curve bows below

the 45° line. If a transfer raises the second income to 30, the second cumulative point becomes 20% of people, 20% of income – the curve moves toward equality and the Gini falls.

A **fiscal deficit** is a year's shortfall of revenue against spending; the **national debt** is the accumulated stock. A **progressive tax** takes a rising share of higher incomes; a **regressive tax** takes a falling share. Development constraints include primary-product dependency (Prebisch-Singer: primary exporters' terms of trade worsen over time), the savings gap (Harrod-Domar), the foreign-currency gap and **capital flight**.

2 Practice

2.1 Distinguish between absolute and relative poverty, and explain why a country can reduce one while the other rises. [4]

2.2 A four-person economy has incomes 5, 15, 30, 50 (total 100). Compute the cumulative income shares, sketch the Lorenz points, and state the income share of the richest 25% and the poorest 50%. [6]

2.3 Explain the difference between a cyclical and a structural fiscal deficit, and why the difference matters for policy. [6]

3 Exam-style questions

3.1 The fictional country of Soravia exports 85% of its foreign earnings as unprocessed cocoa. Cocoa prices fell 40% in two years; government revenue collapsed and skilled nurses emigrated. Evaluate the economic factors that constrain Soravia's growth and development. Refer to Soravia in your answer. [20]