Solutions

Marking: **M1** a correct method, **A1** the correct answer, **B1** an independent mark.

Each answer shows the steps, then the **result**.

2.1

absolute poverty: income too low to meet basic needs such as food, water and shelter; relative poverty: income well below the average or median income in a country

2.2

0: perfect equality: every household has the same income; 1: perfect inequality: one household has all the income

2.3

any two, explained: technology raises the pay of high-skilled workers relative to low-skilled; cuts in progressive taxes or benefits mean less redistribution; rising returns to capital and property increase incomes of the wealthy; weaker unions / falling real minimum wage

3.1

(a) income has become more unequal; a larger share of income goes to the richest households

(b) transfer payments (pensions, child benefits, unemployment benefits) raise the incomes of the poorest directly; they reduce poverty quickly and support spending (AD); but they are costly, with an opportunity cost for other spending, or need higher taxes; a poverty trap if benefits are withdrawn as earnings rise, reducing the incentive to work; they treat the symptom, not the causes such as low skills; judgement: needed in the short run, best combined with education and training

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