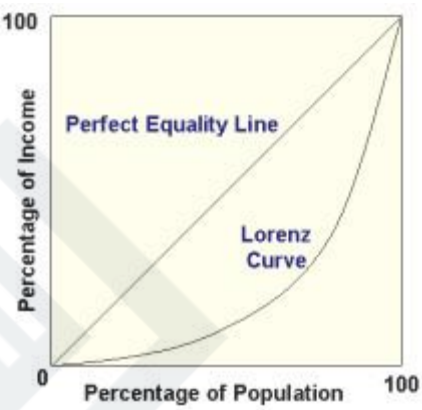
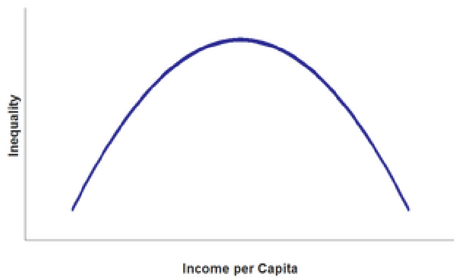
4.2.2 Inequality

- *Distinction between wealth and income inequality*
- *Measures of income inequality:*
  - *Lorenz curve (diagrammatic analysis)*
  - *The Gini coefficient*
- *Causes of income and wealth inequality with countries and between countries*
- *Impact of economic change and development on inequality*
- *Significance of capitalism for inequality*

- Income is a flow concept so income inequality refers to unequal distribution of earnings
- Wealth is a stock of assets so wealth inequality refers to differences in the value of stocks owned by individuals
- Lorenz curve: a graphical representation of income distribution
  - Cumulative percentage of population against cumulative percentage of total income
  - The 45° line represents perfect equality
  - The curved line represents the income distribution for a particular country



- Gini coefficient: a numerical calculation of inequality based on the Lorenz curve with a value of 0 being perfect equality and a value of 1 being perfect inequality
  - $G = \frac{A}{A+B}$, where A represents the area of between the diagonal line and the Lorenz curve and B represents the area under the Lorenz curve
  - x100 to get the Gini coefficient as a percentage
- Causes of income inequality and wealth inequality within countries:
  - Globalisation
  - Education, skills and training
  - Strength of trade unions
  - Degree of employment protection
  - Social benefits
  - The progressiveness of the tax system
- Causes of income inequality and wealth inequality between countries:
  - Natural resources
  - Geography
  - History e.g. impact of colonialism
  - Degree of political stability
  - Macroeconomic policies
  - Amount of FDI
  - Degree of trade liberalisation
  - Degree of technological change
- Kuznets curve: shows that when an economy is at an early stage of development and primarily agricultural, there is relatively low



inequality. Industrialisation results in increased inequality but at some point it starts to decrease

- In the 30 years before the financial crisis there was evidence that inequality in advanced countries was decreasing
- Significance of capitalism for inequality:
  - A capitalist society is characterised by the split between the owners of resources and the working class
  - Typically the owners of resources will have more wealth and income than workers, so contributing to inequality