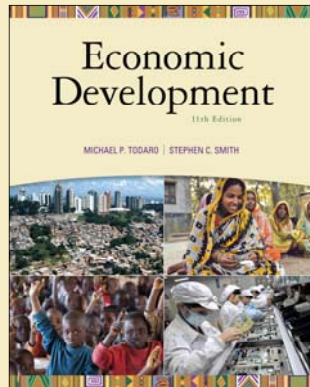


Chapter 5

Poverty, Inequality, and Development



Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

Distribution and Development: Seven Critical Questions

- What is the extent of relative inequality, and how is this related to the extent of poverty?
- Who are the poor?
- Who benefits from economic growth?
- Does rapid growth necessarily cause greater income inequality?
- Do the poor benefit from growth?

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-2

Distribution and Development: Seven Critical Questions

- Are high levels of inequality always bad?
- What policies can reduce poverty?

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-3

5.1 Measuring Inequality and Poverty

- Measuring Inequality
 - Size distributions (quintiles, deciles)
 - Lorenz curves
 - Gini coefficients and aggregate measures of inequality
 - Functional distributions

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-4

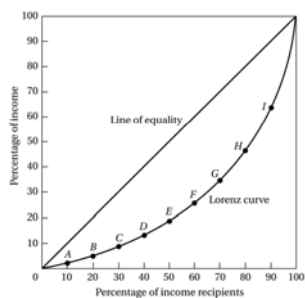
Table 5.1 Typical Size Distribution of Personal Income in a Developing Country by Income Shares—Quintiles and Deciles

Individuals	Personal Income (money units)	Share of Total Income (%)	
		Quintiles	Deciles
1	0.8		
2	1.0		1.8
3	1.4		
4	1.8	5	3.2
5	1.9		
6	2.0		3.9
7	2.4		
8	2.7	9	5.1
9	2.8		
10	3.0		5.8
11	3.4		
12	3.8	13	7.2
13	4.2		
14	4.8		9.0
15	5.9		
16	7.1	22	13.0
17	10.5		
18	12.0		22.5
19	13.5		
20	15.0	51	28.5
Total (national income)	100.0	100	100.0

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-5

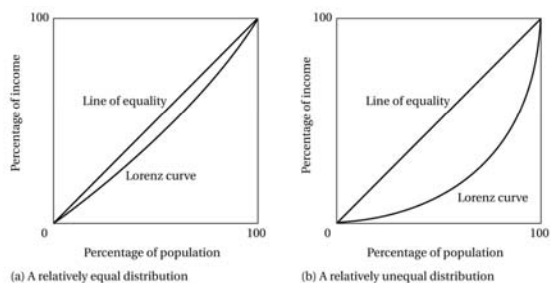
Figure 5.1 The Lorenz Curve



Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-6

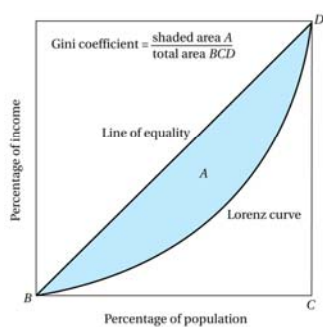
Figure 5.2 The Greater the Curvature of the Lorenz Line, the Greater the Relative Degree of Inequality



Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-7

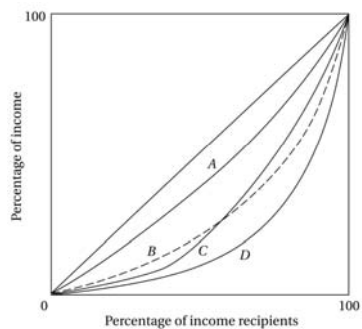
Figure 5.3 Estimating the Gini Coefficient



Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-8

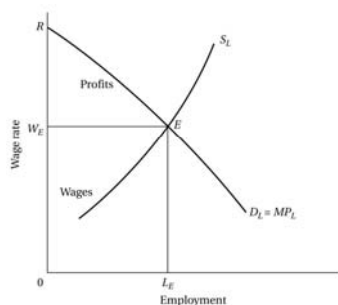
Figure 5.4 Four Possible Lorenz Curves



Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-9

Figure 5.5 Functional Income Distribution in a Market Economy: An Illustration



Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-10

5.1 Measuring Inequality and Poverty

• Measuring Absolute Poverty

- Headcount Index: H/N
- Where H is the number of persons who are poor and N is the total number of people in the economy
- Total poverty gap:

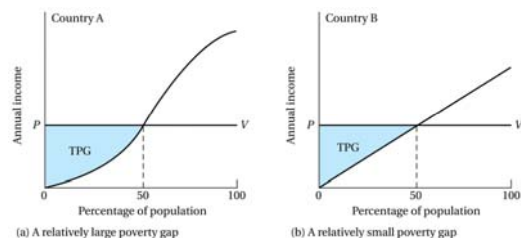
$$TPG = \sum_{i=1}^H (Y_p - Y_i)$$

- Where Y_p is the absolute poverty line; and Y_i the income of the i th poor person

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-11

Figure 5.6 Measuring the Total Poverty Gap



Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-12

5.1 Measuring Inequality and Poverty

- Measuring Absolute Poverty
 - Average poverty gap (APG):

$$APG = \frac{TPG}{N}$$

- Where N is number of persons in the economy
- TPG is total poverty gap
- Note: normalized poverty gap, NPG = APG/Y_p

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-13

5.1 Measuring Inequality and Poverty

- Measuring Absolute Poverty
 - Average income shortfall (AIS):

$$AIS = \frac{TPG}{H}$$

- Where H is number of poor persons
- TPG is total poverty gap
- Note: Normalized income shortfall, NIS = AIS/Y_p

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-14

5.1 Measuring Inequality and Poverty

- Measuring Absolute Poverty (continued)
 - The Foster-Greer-Thorbecke (FGT) index:

$$P_{\alpha} = \frac{1}{N} \sum_{i=1}^H \left(\frac{Y_p - Y_i}{Y_p} \right)^{\alpha}$$

- N is the number of persons, H is the number of poor persons, and α ≥ 0 is a parameter
- When α=0, we get the headcount index measure
- When α=2, we get the "P₂" measure

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-15

5.1 Measuring Inequality and Poverty

- Measuring Absolute Poverty
 - The Newly Introduced Multidimensional Poverty Index

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-16

The Multidimensional Poverty Index (MPI)

- Identification of poverty status through a *dual cutoff*.
- First, cutoff levels within each dimension (analogous to falling below a poverty line for example \$1.25 per day for income poverty);
- Second, cutoff in the number of dimensions in which a person must be deprived (below a line) to be deemed *multidimensionally* poor.
- MPI focuses on deprivations in health, education, and standard of living; and each receives equal (that is one-third of the overall total) weight.

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-17

MPI Indicators

- Health - two indicators with equal weight - whether any child has died in the family, and whether any adult or child in the family is malnourished - weighted equally (each counts as one-sixth toward the maximum deprivation in the MPI)
- Education - two indicators with equal weight - whether no household member completed 5 years of schooling, and whether any school-aged child is out of school for grades 1 through 8 (each counts one-sixth toward the MPI).
- Standard of Living, equal weight on 6 deprivations (each counts as 1/18 toward the maximum): lack of electricity; insufficiently safe drinking water; inadequate sanitation; inadequate flooring; unimproved cooking fuel; lack of more than one of 5 assets - telephone, radio, TV, bicycle, and motorbike.

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-18

Interaction of the deprivations?

- Building the index from household measures up to the aggregate measure (rather than using already-aggregated statistics), MPI approach takes account of multiplied or interactive harm (complementarity) done when multiple deprivations are experienced by the *same individual or family*
- The MPI approach assumes an individual's lack of capability in one area can only to a degree be made up by other capabilities – capabilities are treated as substitutes up to a point but then as complements.

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-19

Computing the MPI

- The MPI for the country (or region or group) is then computed
- A convenient way to express the resulting value is $H \cdot A$, i.e.,
- The product of the headcount ratio H (the percent of people living in multidimensional poverty), and the average intensity of deprivation A (the percent of weighted indicators for which poor households are deprived on average).
- The adjusted headcount ratio HA is readily calculated
- HA satisfies some desirable properties. Important example -
- Dimensional monotonicity*: If a person already identified as poor becomes deprived in *another* indicator she is measured as even *poorer* - not the case using a simple headcount ratio.

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-20

Table 5.2 MPI Rankings and Poverty Headcounts for Selected Countries

Country	Year	MPI Value	MPI Rank	Multidimensional Poverty		Income Poverty	
				H (proportion of poor)	A (average intensity of deprivation)	$\$1.25$ a Day (proportion of poor)	$\$2$ a Day (proportion of poor)
				Value	Rank	Value	Rank
Kazakhstan	2006	0.002	7	0.006	0.369	0.031	23
Thailand	2005	0.006	16	0.016	0.385	0.029	1
Ecuador	2003	0.009	24	0.022	0.416	0.047	26
Mexico	2006	0.015	29	0.040	0.389	0.029	1
Kenya	2003	0.019	39	0.066	0.460	0.052	29
Colombia	2003	0.041	40	0.092	0.441	0.160	42
Dominican Republic	2009	0.048	42	0.111	0.433	0.050	28
China	2003	0.056	44	0.125	0.449	0.139	41
Viet Nam	2002	0.075	50	0.143	0.525	0.215	50
Indonesia	2007	0.095	53	0.206	0.439	0.075	31
Ghana	2008	0.140	57	0.301	0.484	0.300	57
Zimbabwe	2006	0.174	60	0.365	0.452		
Bolivia	2003	0.175	61	0.363	0.483	0.196	46
Nicaragua	2001	0.211	64	0.407	0.519	0.138	40
Laos	2006	0.267	68	0.472	0.561	0.449	66
Pakistan	2007	0.275	70	0.510	0.540	0.226	33
Kenya	2006	0.283	71	0.525	0.539	0.175	43
Bangladesh	2007	0.291	73	0.578	0.504	0.496	71
India	2005	0.296	74	0.554	0.533	0.416	67
Kenya	2003	0.302	76	0.604	0.500	0.197	47
Haiti	2006	0.306	77	0.571	0.533	0.549	76
Cote d'Ivoire	2005	0.320	78	0.522	0.614	0.233	35
Nepal	2006	0.330	82	0.647	0.540	0.551	77
Tanzania	2008	0.347	84	0.653	0.563	0.883	93
DR Congo	2007	0.393	88	0.732	0.537	0.592	79
Madagascar	2004	0.413	91	0.706	0.585	0.678	86
Angola	2003	0.452	93	0.774	0.584	0.543	89
Ethiopia	2005	0.582	103	0.900	0.647	0.390	62
Niger	2006	0.642	104	0.927	0.693	0.659	85

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-21

Multidimensional poverty tells a different story than income poverty

- The results showed that knowing income poverty is not enough if our concern is with multidimensional poverty.
- Multidimensionally, Bangladesh is substantially less poor - but Pakistan substantially poorer - than would be predicted by income poverty
- Ethiopia is far more multidimensionally poor, and Tanzania much less so, than predicted by income poverty.
- Most Latin American countries e.g. Brazil rank worse on multidimensional poverty than on income poverty; but Colombia's income and MPI poverty ranks are about same.

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-22

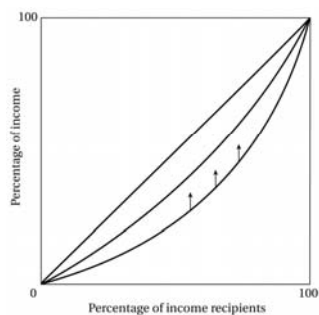
5.2 Poverty, Inequality, and Social Welfare

- What's So Bad about Extreme Inequality?
- Dualistic Development and Shifting Lorenz Curves: Some Stylized Typologies
 - Traditional sector enrichment (see Figure 5.7)
 - Modern sector enrichment (see Figure 5.8)
 - Modern sector enlargement (see Figure 5.9)

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-23

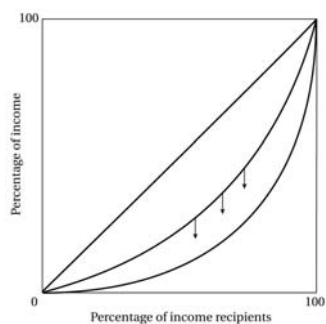
Figure 5.7 Improved Income Distribution under the Traditional-Sector Enrichment Growth Typology



Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-24

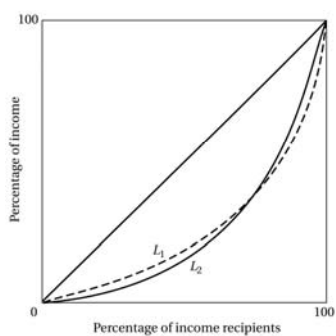
Figure 5.8 Worsened Income Distribution under the Modern-Sector Enrichment Growth Typology



Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-25

Figure 5.9 Crossing Lorenz Curves in the Modern-Sector Enlargement Growth Typology



Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

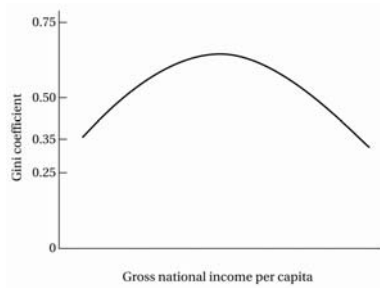
5-26

5.2 Poverty, Inequality, and Social Welfare

- Kuznets' Inverted-U Hypothesis

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-27

Figure 5.10 The "Inverted-U" Kuznets Curve

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-28

Table 5.3 Selected Income Distribution Estimates

Country	Lowest 10%	Quintile					Highest 10%	Year
		1st	2nd	3rd	4th	5th		
Bangladesh	4.3	9.4	12.6	16.1	21.1	40.8	26.6	2005
Brazil	1.1	3.0	6.9	11.8	19.6	58.7	43.0	2007
China	2.4	5.7	9.8	14.7	22.0	47.8	31.4	2005
Colombia	0.8	2.3	6.0	11.0	19.1	41.6	45.9	2006
Costa Rica	1.6	4.4	8.5	12.7	19.7	54.6	38.6	2007
Guatemala	1.3	3.4	7.2	12.0	19.5	57.8	42.4	2006
Honduras	0.7	2.5	6.7	12.1	20.4	58.4	42.2	2006
India	3.6	8.1	11.3	14.9	20.4	45.3	31.1	2005
Jamaica	2.1	5.2	9.0	13.8	20.9	51.2	35.6	2004
Namibia	0.6	1.5	2.8	5.5	12.0	78.3	65.0	1993
Pakistan	3.9	9.1	12.8	16.3	21.3	40.5	26.5	2005
Peru	1.3	3.6	7.8	13.0	20.8	54.8	38.4	2007
Philippines	2.4	5.6	9.1	13.7	21.2	50.4	33.9	2006
South Africa	1.3	3.1	5.6	9.9	18.8	62.7	44.9	2000
Tanzania	3.1	7.3	11.8	16.3	22.3	42.3	27.0	2001
Zambia	1.3	3.6	7.8	12.8	20.6	55.2	38.9	2005
Japan	4.8	10.6	14.2	17.6	22.0	35.7	21.7	1993
United States	1.9	5.4	10.7	15.7	22.4	45.8	29.9	2000

Source: World Bank, World Development Indicators, 2010 (Washington, D.C.: World Bank, 2010), table 2.9.

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-29

Table 5.4 Income and Inequality in Selected Countries

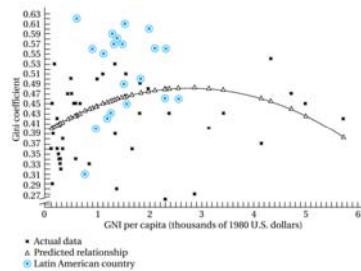
Country	Income Per Capita (U.S. \$, 2008)	Gini Coefficient	Survey Year for Gini Calculation
Low Income			
Ethiopia	280	29.8	2005
Mozambique	380	47.1	2001
Nepal	400	47.3	2004
Cambodia	640	40.7	2007
Zambia	950	50.7	2005
Lower Middle Income			
India	1,040	36.8	2005
Cote d'Ivoire	1,150	44.6	2001
India	1,460	57.2	2007
Egypt	1,800	32.1	2005
Indonesia	1,880	37.6	2007
Upper Middle Income			
Namibia	4,210	74.3	1993
Bulgaria	5,090	29.2	2001
South Africa	5,820	57.8	2000
Argentina	7,190	48.8	2006
Brazil	7,300	55.0	2007
Mexico	9,990	51.6	2008
Upper Income			
Hungary	12,810	30.0	2004
Spain	31,930	34.7	2000
Germany	42,710	28.3	2000
United States	47,930	40.8	2000
Norway	67,340	25.8	2000

Source: World Bank, World Development Indicators, 2010 (Washington, D.C.: World Bank, 2010), tables 1.1 and 2.9.

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-30

Figure 5.11 Kuznets Curve with Latin American Countries Identified

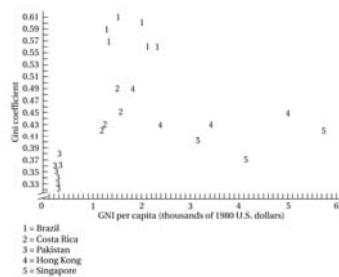


Source: Gary S. Fields, *Distribution and Development: A New Look at the Developing World* (Cambridge, Mass.: MIT Press, 2001), ch. 3, p. 46. © 2001 Massachusetts Institute of Technology, by permission of The MIT Press.

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-31

Figure 5.12 Plot of Inequality Data for Selected Countries



Source: Gary S. Fields, *Distribution and Development: A New Look at the Developing World* (Cambridge, Mass.: MIT Press, 2001), ch. 3, p. 44. © 2001 Massachusetts Institute of Technology, by permission of The MIT Press.

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-32

5.2 Poverty, Inequality, and Social Welfare

- Growth and Inequality

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-33

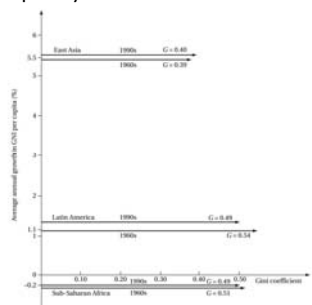
5.3 Absolute Poverty: Extent and Magnitude

- Progress on Extreme Poverty
 - Clear progress on \$1.25-a-day headcount
 - Less clear progress on \$2.00-per-day headcount (see Figure 5.14)
 - Incidence of extreme poverty is uneven
- Relationship between Growth and Poverty
 - Association between growth and poverty reduction
 - When it is inclusive, growth reduces poverty
 - Lower extreme poverty may also lead to higher growth

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-34

Figure 5.13 Long-Term Economic Growth and Income Inequality

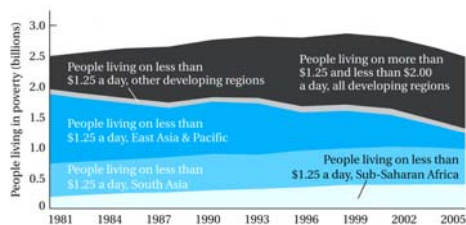


Source: World Bank, World Development Indicators, 1999 (Washington, D.C.: World Bank, 1999), table 3.4, Economic, October 15, 1999, p. 82.

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-35

Figure 5.14 Global and Regional Poverty Trends



Source: PovcalNet and World Bank, World Development Indicators 2010, fig. 2.8a, p. 91.

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-36

Table 5.5 Regional Poverty Incidence, 2005

Region	Headcount Ratio	Poverty Gap	Squared Poverty Gap
Regional Aggregation at \$1.25 per Day			
East Asia and the Pacific	16.78	4.04	1.40
Europe and Central Asia	8.84	2.97	0.47
Latin America and the Caribbean	8.22	2.75	1.46
Middle East and North Africa	3.60	0.78	0.30
South Asia	40.34	10.29	3.64
Sub-Saharan Africa	50.91	20.74	11.05
Total	25.19	7.5	3.22
Regional Aggregation at \$2 per Day			
East Asia and the Pacific	38.64	12.94	5.80
Europe and Central Asia	17.12	6.45	3.41
Latin America and the Caribbean	16.85	4.03	1.50
Middle East and North Africa	73.91	28.70	13.81
South Asia	72.85	36.39	22.42
Sub-Saharan Africa	47.00	18.51	9.43

Source: World Bank, "PovertyNet," <http://research.worldbank.org/PovertyNet>.

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-37

Table 5.6 Poverty Incidence in Selected Countries

Country	Year	Per Capita Monthly Income (2005 PPP)	Headcount Ratio (%)	Poverty Gap (%)	Squared Poverty Gap (%)	Gini Index (%)
Incidence at \$1.25 a Day: Poverty Line at 38						
Bangladesh	2005	48.27	50.47	14.17	5.20	33.22
Benin	2003	52.77	47.33	15.73	6.97	38.62
Brazil	2007	346.64	5.21	1.26	0.44	55.02
Burkina Faso	2003	46.85	56.54	20.27	9.38	39.6
China—Rural	2005	71.34	26.11	6.46	2.26	35.85
China—Urban	2005	161.83	1.71	0.45	0.24	34.8
Côte d'Ivoire	2002	101.11	23.34	6.82	2.87	48.39
Guatemala*	2006	191.7	12.65	3.83	1.63	53.69
Honduras*	2006	184.45	18.19	8.19	5.00	55.31
India—Rural	2004	49.93	43.83	10.66	3.65	30.46
India—Urban	2004	62.43	36.16	10.16	3.80	37.59
Indonesia—Rural	2005	62.79	24.01	5.03	1.61	29.52
Indonesia—Urban	2005	89.1	18.67	4.06	1.29	39.93
Madagascar	2005	44.82	67.83	26.32	13.23	47.24
Mexico	2006	330.37	0.65	0.13	0.05	48.11
Mozambique	2002	36.58	74.69	33.4	20.48	47.11
Nicaragua*	2005	151.18	15.81	5.23	2.54	52.33
Nigeria	2003	39.46	64.41	29.57	17.2	42.93
Pakistan	2004	65.76	22.59	4.35	1.28	31.18
Peru	2006	216.82	7.94	1.86	0.61	49.55
Philippines	2006	98.99	22.62	5.48	1.74	44.04
Rwanda	2000	33.76	76.56	38.21	22.94	46.68
Senegal	2005	66.86	33.5	10.8	4.67	39.19

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-38

Table 5.6 Poverty Incidence in Selected Countries (continued)

Country	Year	Per Capita Monthly Income (2005 PPP)	Headcount Ratio (%)	Poverty Gap (%)	Squared Poverty Gap (%)	Gini Index (%)
Incidence at \$2 a Day: Poverty Line at 60.84						
Bangladesh	2005	48.27	80.32	34.35	17.55	33.22
Benin	2003	52.77	75.33	33.51	18.25	38.62
Brazil	2007	346.64	12.70	4.15	1.85	55.02
Burkina Faso	2003	46.85	81.22	39.26	22.58	39.60
China—Rural	2005	71.34	55.63	19.47	8.94	35.85
China—Urban	2005	161.83	9.38	2.12	0.81	34.8
Côte d'Ivoire	2002	101.11	46.79	17.62	8.78	48.39
Guatemala*	2006	191.7	25.71	9.63	4.84	53.69
Honduras*	2006	184.45	29.73	14.15	8.91	55.31
India—Rural	2004	49.93	79.53	30.89	14.69	30.46
India—Urban	2004	62.43	65.85	25.99	12.92	37.59
Indonesia—Rural	2005	62.79	61.19	19.55	8.27	29.52
Indonesia—Urban	2005	89.1	45.85	14.85	6.39	39.93
Madagascar	2005	44.82	89.62	46.94	28.5	47.24
Mexico	2006	330.37	4.79	0.96	0.31	48.11
Mozambique	2002	36.58	90.03	53.56	36.00	48.07
Nicaragua*	2005	151.18	31.87	12.26	6.44	52.33
Nigeria	2003	39.46	83.92	46.89	30.8	42.93
Pakistan	2004	65.76	60.32	18.75	7.66	31.18
Peru	2006	216.82	18.51	5.95	2.54	49.55
Philippines	2006	98.99	45.05	16.36	7.58	44.04
Rwanda	2000	33.76	90.1	55.69	38.5	44.11
Senegal	2005	66.86	60.37	24.67	12.98	39.19

Source: World Bank, "PovertyNet," <http://research.worldbank.org/PovertyNet>.
*Preliminary data.

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-39

5.4 Economic Characteristics of High-Poverty Groups

- Rural poverty
- Women and poverty
- Ethnic minorities, indigenous populations, and poverty

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-40

Table 5.7 Poverty: Rural versus Urban

Region and Country	Survey Year	Percentage below National Poverty Line		
		Rural Population	Urban Population	National Population
Sub-Saharan Africa				
Benin	2003	46.0	29.0	39.0
Burkina Faso	2003	52.4	19.2	46.4
Cameroon	2007	55.0	12.2	29.9
Malawi	2005	55.9	25.4	52.4
Tanzania	2001	38.7	29.5	35.7
Uganda	2006	34.2	13.7	31.1
Zambia	2004	72.0	53.0	68.0
Asia				
Bangladesh	2005	43.8	28.4	40.0
India	2000	30.2	24.7	28.6
Indonesia	2004	20.1	12.1	16.7
Uzbekistan	2003	29.8	22.6	27.2
Vietnam	2002	35.6	6.6	28.9
Latin America				
Bolivia	2007	63.9	23.7	37.7
Brazil	2003	41.0	17.5	21.5
Dominican Republic	2007	54.1	45.4	48.5
Guatemala	2006	72.0	28.0	51.0
Honduras	2004	70.4	29.5	50.7
Mexico	2004	56.9	41.0	47.0
Peru	2004	72.5	40.3	51.6

Source: World Bank, World Development Indicators, 2010 (Washington, D.C.: World Bank, 2010), table 2.7.

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-41

Table 5.8 Indigenous Poverty in Latin America

Population below the Poverty Line (%), Early 1990s			Change in Poverty (%), Various Periods		
Country	Indigenous	Nonindigenous	Period	Indigenous	Nonindigenous
Bolivia	64.3	48.1	1997-2002	0	-8
Guatemala	86.6	53.9	1989-2000	-15	-25
Mexico	80.6	17.9	1992-2002	0	-5
Peru	79.0	49.7	1994-2000	0	+3

Source: Data for left side of table from George Psacharopoulos and Harry A. Patrinos, "Indigenous people and poverty in Latin America," *Finance and Development* 31 (1994): 41, and with permission; data for right side of table from Gillette Hall and Harry A. Patrinos, eds., *Indigenous Peoples, Poverty, and Human Development in Latin America, 1994-2004* (New York: Palgrave Macmillan, 2006).

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-42

5.5 Policy Options on Income Inequality and Poverty: Some Basic Considerations

- Areas of Intervention
 - Altering the functional distribution
 - Mitigating the size distribution
 - Moderating (reducing) the size distribution at upper levels
 - Moderating (increasing) the size distribution at lower levels

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-43

5.5 Policy Options on Income Inequality and Poverty: Some Basic Considerations

- Policy options
 - Changing relative factor prices
 - Progressive redistribution of asset ownership
 - Progressive taxation
 - Transfer payments and public provision of goods and services

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-44

5.6 Summary and Conclusions: The Need for a Package of Policies

- Policies to correct factor price distortions
- Policies to change the distribution of assets, power, and access to education and associated employment opportunities
- Policies of progressive taxation and directed transfer payments
- Policies designed to build capabilities and human and social capital of the poor

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-45

Concepts for Review

- Absolute poverty
- Asset ownership
- Character of economic growth
- Decile
- Disposable income
- Factor share distribution of income
- Factors of production
- Foster-Greer-Thorbecke (FGT) index
- Functional distribution of income
- Gini coefficient
- Headcount index
- Income inequality
- Indirect taxes
- Kuznets curve
- Land reform

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-46

Concepts for Review (cont'd)

- Lorenz curve
- Multidimensional poverty index (MPI)
- Personal distribution of income
- Progressive income tax
- Public consumption
- Quintiles
- Redistribution policies
- Regressive tax
- Size distribution of income
- Subsidy
- Total poverty gap (TPG)
- Workfare programs

Copyright © 2012 Pearson Addison-Wesley. All rights reserved.

5-47
