

***INCOME INEQUALITY
AND POVERTY***

FACTS ABOUT INCOME INEQUALITY

Distribution of U.S. Personal Income by Families, **2010**

<i>Personal Income Category</i>	<i>Percentage of All Families in This Category</i>
Under \$10,000	7.6
\$10,000 - \$14,999	5.9
\$15,000 - \$24,999	11.5
\$25,000 - \$34,999	11.0
\$35,000 - \$49,999	13.9
\$50,000 - \$74,999	17.6
\$75,000 - \$99,999	11.5
\$100,000-\$199,999	16.7
\$200,000 and over	<u>4.2</u>
	100.0

FACTS ABOUT INCOME INEQUALITY

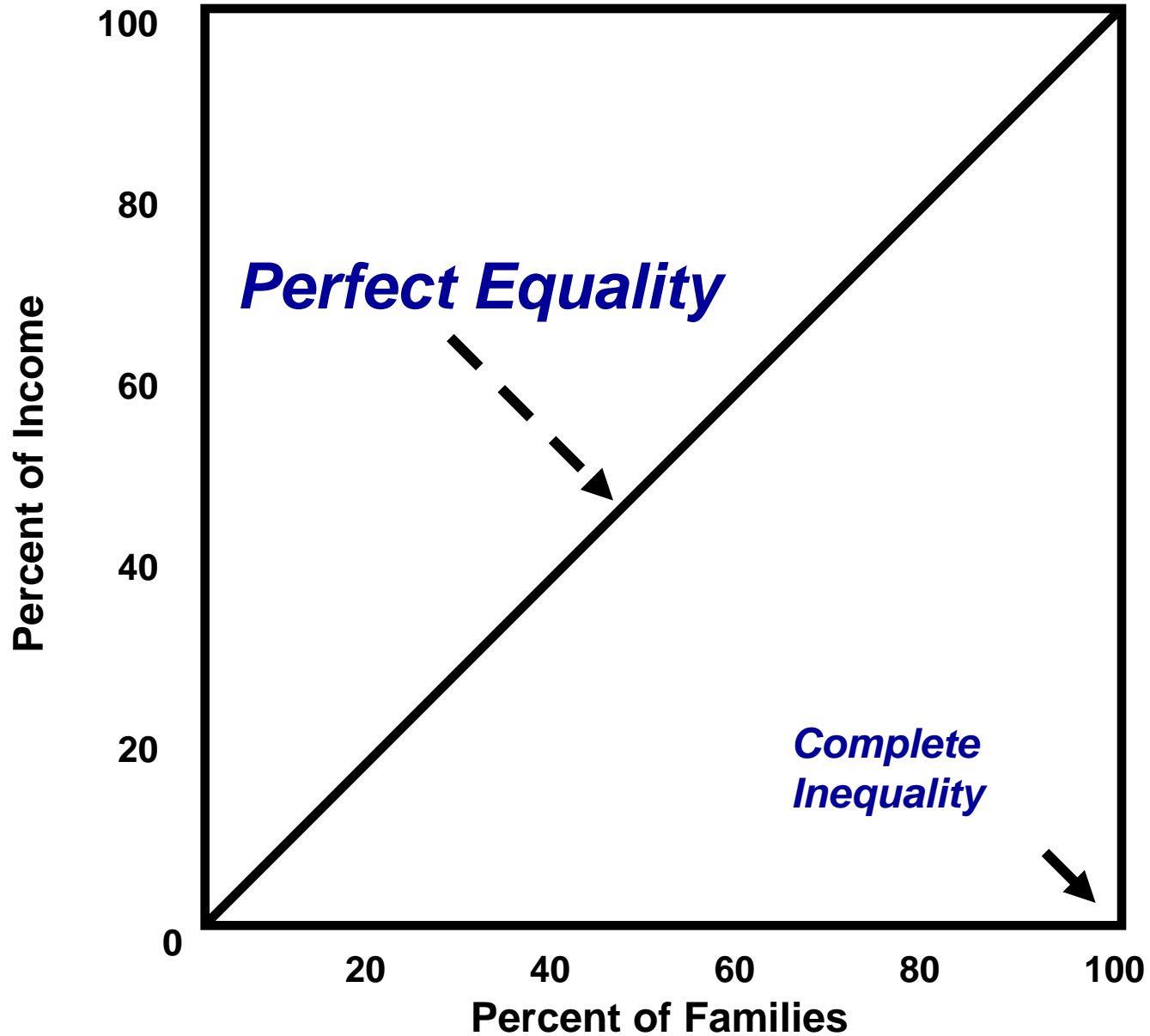
Distribution of Personal Income by Quintiles, **2010**

<i>Quintile</i>	<i>Percentage of Total Income</i>	<i>Upper Income Limit</i>
Lowest	20%	3.3
Second	20%	8.5
Third	20%	14.6
Fourth	20%	23.4
Highest	20%	<u>50.3</u>
Total		100.0

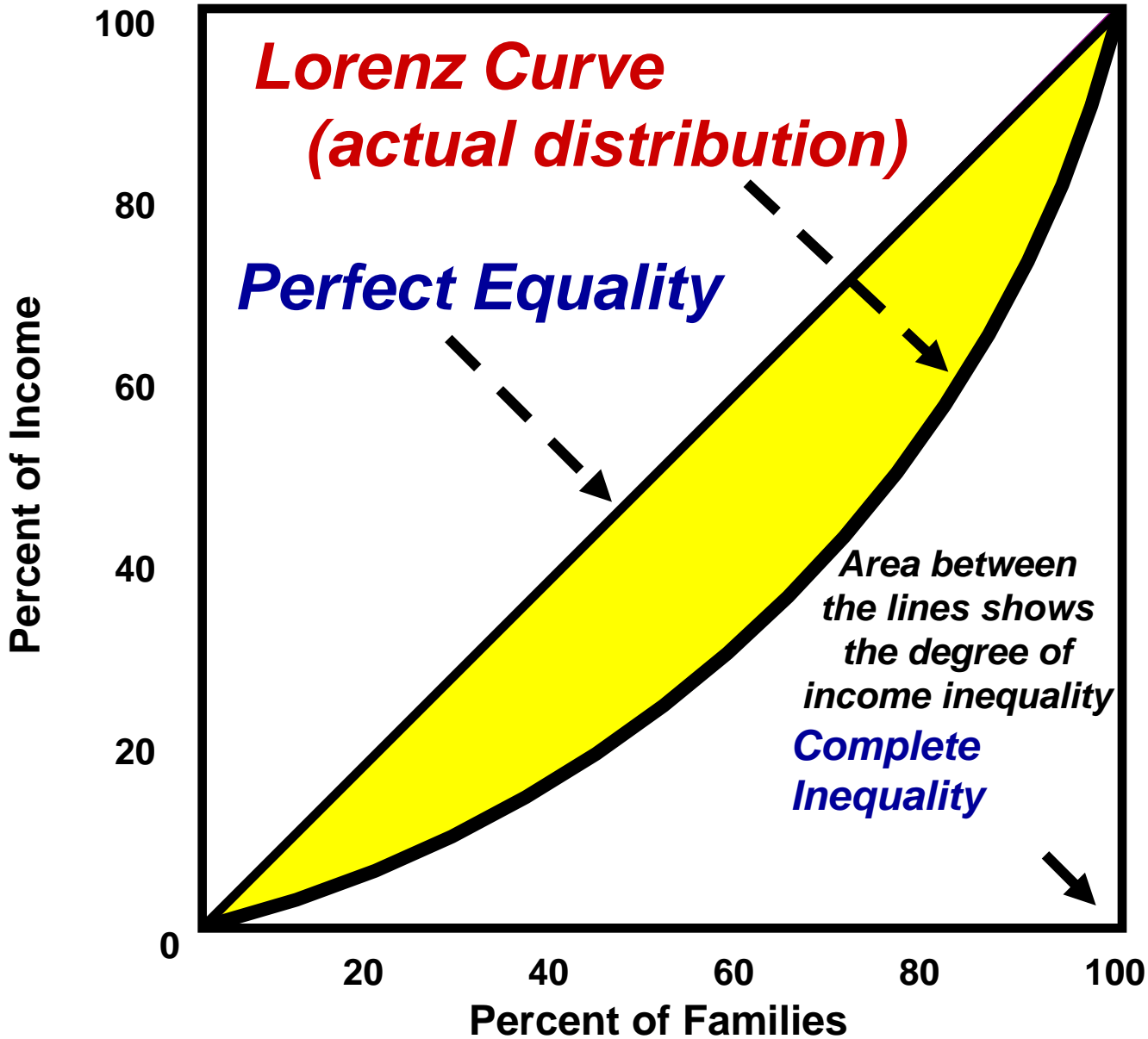
The Lorenz Curve

graphically...

THE LORENZ CURVE



THE LORENZ CURVE



THE LORENZ CURVE

100

Lorenz Curve

Gini Ratio

Numerical Measure of Overall Dispersion of Income

Gini Ratio =

Area Between Lorenz Curve and Diagonal

Total Area Below the Diagonal

Perc

40

20

0

20

40

60

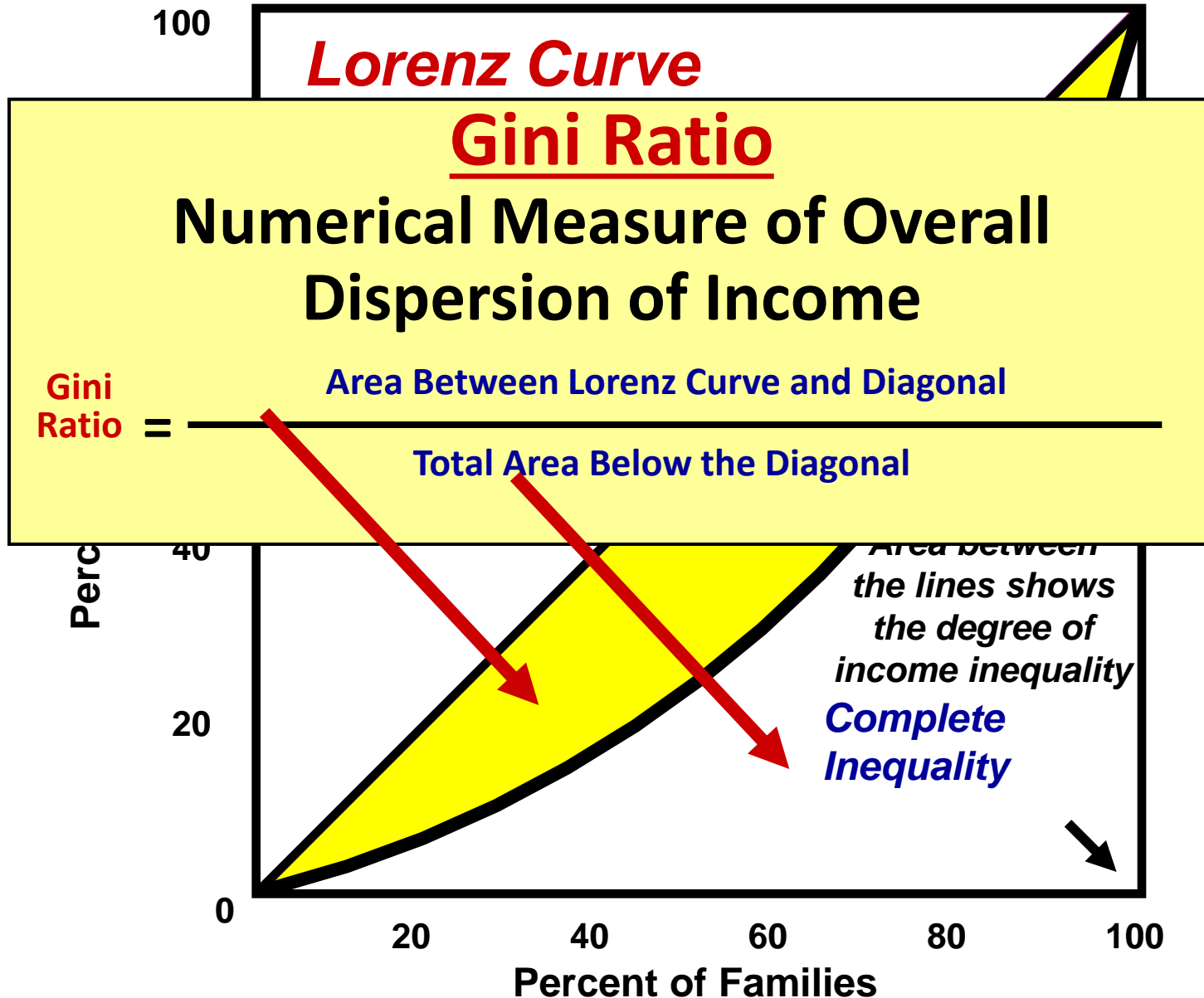
80

100

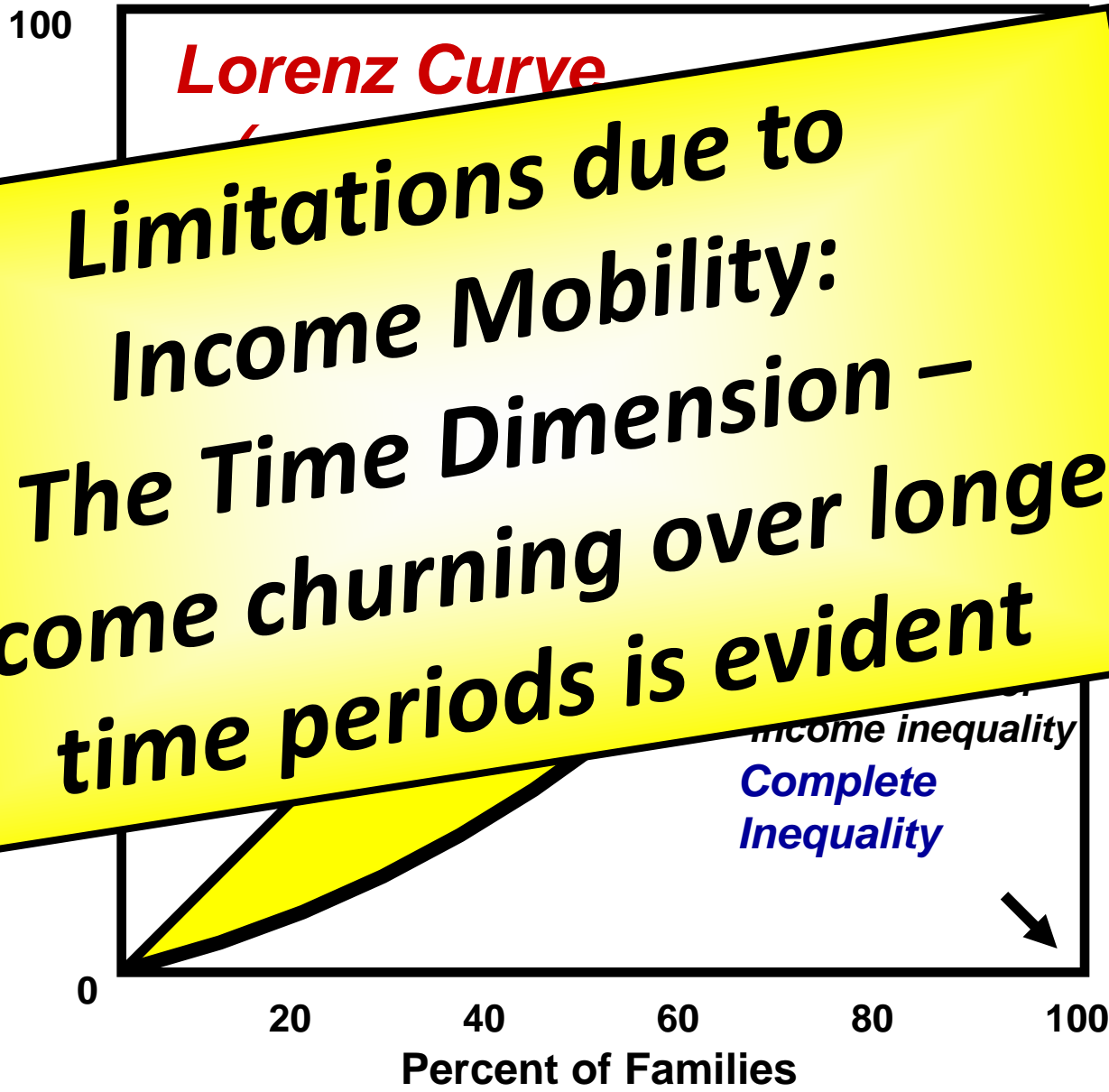
Percent of Families

Area between the lines shows the degree of income inequality

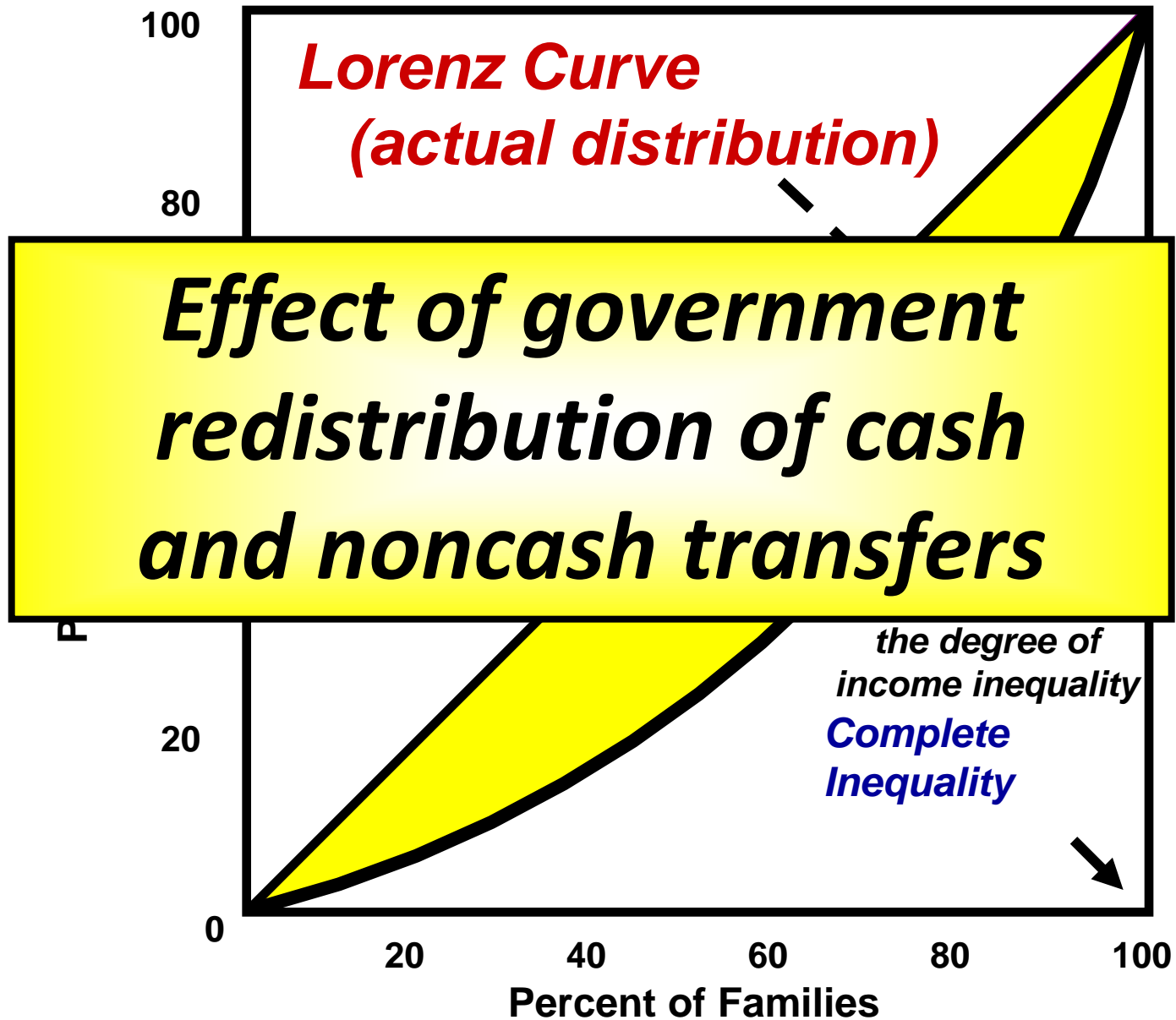
Complete Inequality



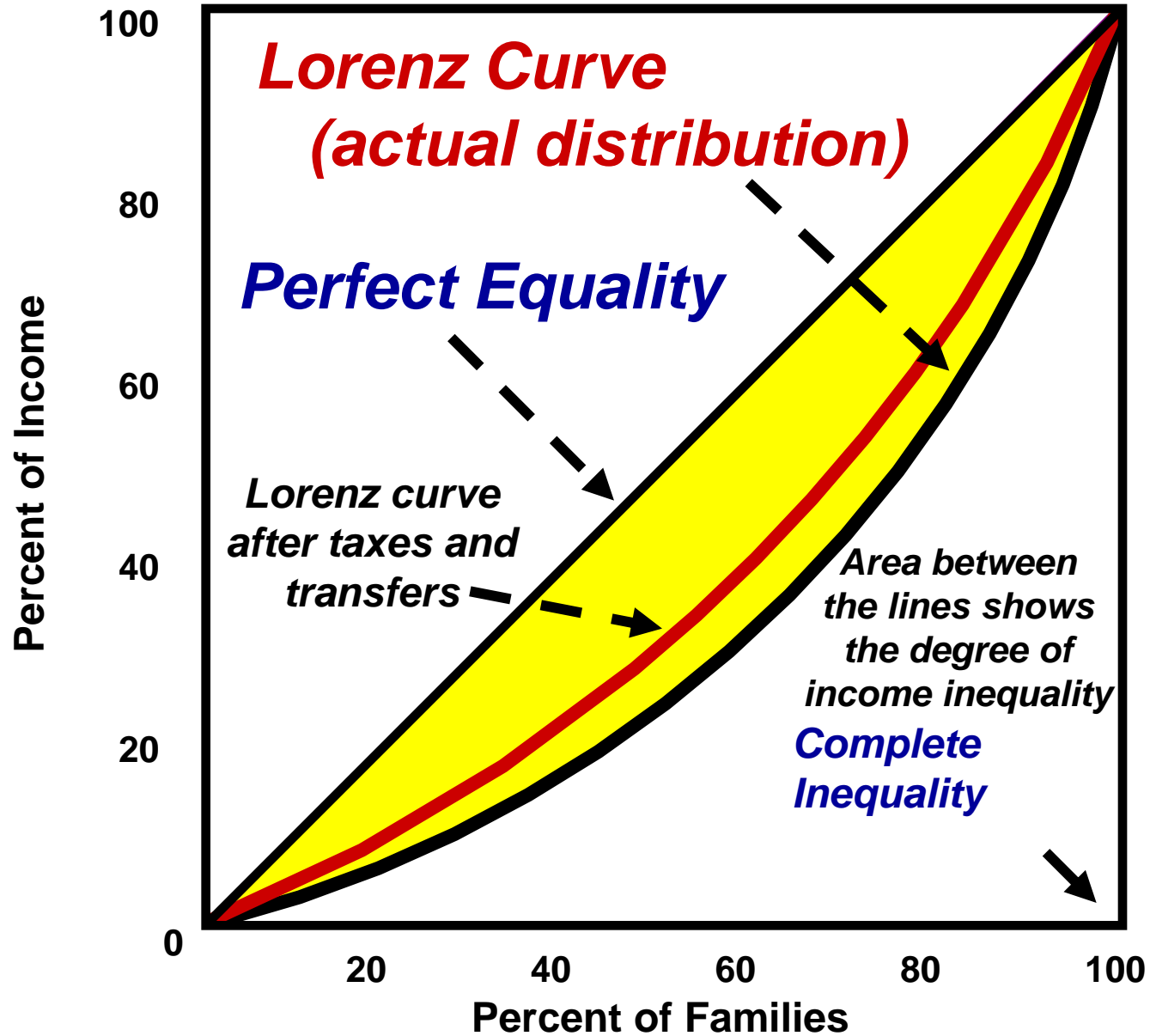
THE LORENZ CURVE



THE LORENZ CURVE



THE LORENZ CURVE



CAUSES OF INCOME INEQUALITY

Ability Differences

Education and Training

Discrimination

Preferences and Risks

**Unequal Distribution
of Wealth**

Market Power

**Luck, Connections,
and Misfortune**

TRENDS IN INCOME INEQUALITY

1929 - 1947

**Significant reduction
in income inequality**

1947 - 1969

**Less inequality
but at a slower pace**

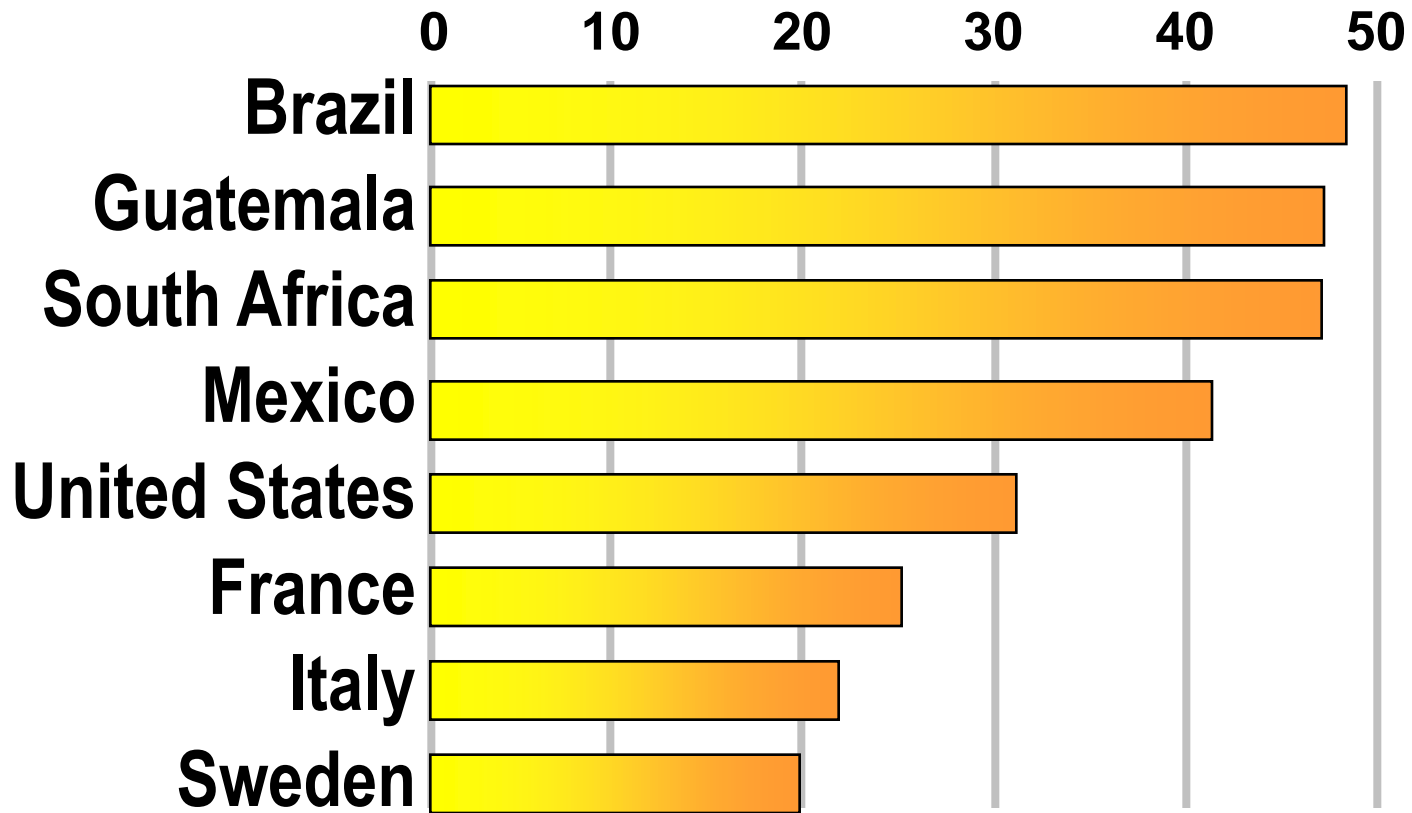
1969 - now

More unequal since 1969



GLOBAL PERSPECTIVE

Percentage of Total Income Received
By Top One-Tenth of Income Receivers,
Selected Nations



Source: World Development Report, 2003

EQUALITY VERSUS EFFICIENCY

The Case for Equality

Maximizing Total Utility

The Case for Inequality

Incentives and Efficiency

Tradeoff Between Equality and Efficiency