

Summary

3.4 Economics of inequality and poverty

Subject	Year	Start date	Duration
Economics	IB2	Week 4, October	1 week 2 hours

Course Part

Macroeconomics

Description

Economics of inequality and poverty, you should be able to:

- Explain the difference between equity in the distribution of income and equality in the distribution of income.
- Explain how, due to unequal ownership of factors of production, the market system may not result in an equitable distribution of income.
- Analyse data on relative income shares of given percentages of the population, including deciles and quintiles.
- Draw a Lorenz curve and explain its significance.
- Explain how the Gini coefficient (index) is derived and interpreted.
- Distinguish between absolute and relative poverty.
- Explain the methods used to measure poverty, including single and composite indicators, and the difficulties encountered when using them.
- Explain possible causes of economic inequality and poverty.
- Explain the impact of income and wealth inequality on economic growth, standards of living and social stability.
- Distinguish between direct and indirect taxes as a mechanism to redistribute income.
- Distinguish between progressive, regressive and proportional taxation, providing examples of each type.
- Explain how governments promote further policies to reduce poverty, income inequality and wealth inequality.

HL:

- Construct a Lorenz curve from income quintile data.
- Calculate the average and marginal tax rates from a set of data.
- Calculate the total tax and average tax rates from a set of data.

Inquiry & Purpose

? Inquiry / Higher Order Questions

Type

Inquiry Questions

Skills-based

The successes/failures of measures adopted to reduce income and/or wealth inequality, for a chosen country.

Curriculum

Objectives

Synthesis and evaluation (AO3)

Discuss and evaluate economic information and theories

Syllabus Content

Unit 3: Macroeconomics

Real-world issue 1 - Why does economic activity vary over time and why does this matter?

3.4 Economics of inequality and poverty

Relationship between equality and equity

The meaning of economic inequality

Unequal distribution of income

Unequal distribution of wealth

Measuring economic inequality

Lorenz curve and Gini coefficient (index)

Diagram: Lorenz curve showing the distribution of income and possible changes in the distribution of income

Construction (HL only): a Lorenz curve from income quintile data

Meaning of poverty

Difference between absolute and relative poverty

Measuring poverty

Single indicators including:

international poverty lines

minimum income standards

Composite indicators including the Multidimensional Poverty Index (MPI)

Difficulties in measuring poverty

Causes of economic inequality and poverty, including:

inequality of opportunity

different levels of resource ownership

different levels of human capital

discrimination (gender, race and others)

unequal status and power

government tax and benefits policies

globalisation and technological change

market-based supply side policies

The impact of income and wealth inequality on:

economic growth

standards of living

social stability

The role of taxation in reducing poverty, income and wealth inequalities

Progressive, regressive and proportional taxes

Average and marginal tax rates

Direct taxes

Personal income

Corporate income

Wealth

Indirect taxes

Calculation (HL only): given the indirect tax rate, the amount of indirect tax paid from a given level/ amount of expenditure

Calculation (HL only): total tax and average tax rates from a set of data

Further policies to reduce poverty, income and wealth inequality, including:

policies to reduce inequalities of opportunities/investment in human capital

transfer payments

targeted spending on goods and services

universal basic income

policies to reduce discrimination

minimum wages

Concepts

Equity and economic well being

IB DP IB Economics Group 3 (IB2)

ATL Skills

Approaches to Learning



Social

- In this unit, we will
provide opportunities for students to make decisions

Developing IB Learners

Learner Profile



Principled



Caring