

MODULE 13

Income distribution

Description: In economics, income distribution covers how a country's total GDP is distributed among its population. Economic theory and economic policy have long seen income and its distribution as a central concern.

Why is income distribution an important policy issue?

Well, first, because of its relevance to efforts to reduce poverty. There is no question that sustained economic growth is a crucial condition for reducing poverty.

How does income distribution affect the economy?

At a microeconomic level, inequality increases ill health and health spending and reduces the educational performance of the poor. These two factors lead to a reduction in the productive potential of the work force. At a macroeconomic level, inequality can be a brake on growth and can lead to instability.

How do you calculate income distribution?

One common way of measuring income inequality is to rank all households by income, from lowest to highest, and then to divide all households into five groups with equal numbers of people, known as quintiles. This calculation allows for measuring the distribution of income among the five groups compared to the total.

* A quintile is a statistical value of a data set that represents 20% of a given population, so the first quintile represents the lowest fifth of the data (1% to 20%); the second quintile represents the second fifth (21% to 40%) and so on.

What is the functional distribution of income?

The functional distribution of income refers to the amounts of income paid to various individuals or households. A single individual may receive income from more than one factor of production or from one source. Progressive income taxes are imposed and subsidies are paid to reduce income inequality.

What factors affect income distribution?

The macroeconomic variables that are found to be associated with an improvement in income distribution are higher growth rate, higher income level, higher investment rate, real depreciation (especially for low-income countries), and improvement trade conditions.

What is the relationship between average household income and standard of living?

There is no relationship. Increasing average income says nothing about income distribution. Rising income enables households to acquire* (get & receive) more of the goods and services that improve their material standard of living.

What are the 5 reasons for income inequality?

5 reasons why income inequality has become a major political issue:

- Technology has altered the nature of work.
- Globalization.
- The rise of superstars.
- The decline of organized labor.
- Changing and breaking the rules.

The rise of superstars.

A small group of giant companies—some old, some new—are once again dominating the global economy.



What is the difference between functional and personal distribution of income?

Personal distribution relates to individual persons and their incomes.

Functional distribution explains the share of total national income received by each factor of production.

What are the main causes of inequality in the distribution of income?

For example, income inequality has increased in the United States over the past 30 years, as income has flowed unequally to those at the very top of the income spectrum. Current economic literature largely points to three explanatory causes of falling wages and rising income inequality: technology, trade, and institutions.

Why is there a gap between rich and poor?

A major cause of economic inequality within modern economies is the determination of wages by the capitalist market. In the capitalist market, the wages for jobs are set by supply and demand. If

there are many workers willing to do a job for a great amount of time, there is a high supply of labor for that job.

Does high GDP mean high standard of living?

On a broad level, GDP can be used to help determine the standard of living. Generally, rising global income translates to a higher standard of living, while diminishing global income causes the standard of living to decline.

What are the top solutions to income inequality?

Income inequality can be reduced directly by decreasing the incomes of the richest or by increasing the incomes of the poorest. Policies focusing on the latter include increasing employment or wages and transferring income.

Which statement best explains the difference between personal income distribution and functional income distribution?

Functional income distribution tells us how much of the income in an economy goes to the groups of people who own each of these. By contrast, personal income distribution simply tells us how much money goes to various individuals, regardless of which of these groups they belong to.

What is unequal distribution of income?

Income inequality is how unevenly income is distributed throughout a population. Populations can be divided up in different ways to show different levels and forms of income inequality such as income inequality by gender or race.

Is a high GDP good or bad?

Economists traditionally use Gross Domestic Product (GDP) to measure economic progress. If GDP is rising, the economy is in solid shape, and the nation is moving forward. On the other hand, if Gross Domestic Product is falling, the economy might be in trouble, and the nation is losing ground.