**KEY CONCEPTS AND SKILLS: Unit 2.3d – Equity in Income Distribution**

**Definitions:**

* **Equity**: fairness
* **Decile**: population segment representing 10% of the total
* **Quintile**: population segment representing 20% of the total
* **Poverty**: The inability of an individual or family to satisfy minimal consumption needs
	+ **Absolute Poverty**: The inability of an individual or family to satisfy minimal consumption needs, where the standard is *consistent across time and countries*
	+ **Relative Poverty**: The inability of an individual or family to satisfy minimal consumption needs, where the standard is *relative to what is what is typical in a society at a given point in time*
* **Transfer payments**: payments for which no good or service is exchanged (e.g., pensions, unemployment insurance, lottery payments)
* Taxes:
	+ **Direct tax**: a tax paid by a taxpayer directly to the government (e.g., income tax)
	+ **Indirect tax**: a tax imposed by a government on expenditures or levied on goods and services
	+ **Progressive tax**: a tax where the higher the level of income, the higher the percentage of tax paid (or the higher the average rate of taxation)
	+ **Regressive tax**: a tax where the higher the level of income, the lower the percentage of tax paid (or the lower the average rate of taxation)
	+ **Proportional tax**: a tax where the tax rate remains constant as income increases

**Concepts and Applications:**

***Equity and the Distribution of Income***

1. Explain how the market system may lead to inequitable distribution of income due to unequal ownership of factors of production.
2. Analyze data on relative income shares of given percentages of the population (including deciles and quintiles).
3. Draw a Lorenz curve and explain its significance.
4. Explain how the Gini coefficient is derived and interpreted.
5. Distinguish between absolute poverty and relative poverty.
6. Explain possible causes of poverty.
7. Explain possible consequences of poverty.
8. Comment on whether it makes sense to use the World Bank’s definitions of absolute poverty to measure poverty in developed countries.
9. Using the concept of human capital, explain how poverty in the present can lead to poverty in the future.

***Measures to Promote Equity***

1. Explain the term transfer payments and provide examples.
2. Explain how government expenditures (transfer payments, provision of merit goods, etc.) may be used to promote equity.
3. Explain ways in which a government can intervene in a market to promote equity.
4. Distinguish between direct and indirect taxes, giving examples of each.
5. Explain how direct taxes may be used to lower income inequality.
6. Distinguish between progressive, regressive and proportional taxation.
7. Explain why indirect taxes are regressive. Explain how exclusion of certain necessities from indirect taxation impacts how regressive the tax is.
8. (HL) Calculate the marginal rate of tax and the average rate of tax from a set of data.
9. Evaluate the various government measures to promote equity in terms of their potential effects on efficiency in the allocation of resources.
10. Explain whether decisions regarding taxation and other government programs are related to positive economics, normative economics, or both.