

1: Chapter 5 - Poverty, Inequality and Development - A Penny for your Thoughts

- An aggregate numerical measure of income inequality ranging from 0 (perfect equality) to 1 (perfect inequality) - It is measured graphically by dividing the area between the perfect equality line and the Lorenz curve by the total area lying to the right of the equality line in a Lorenz diagram.

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2: Chapter 2: Poverty and Inequality

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The first is concerned with whether family units meet the cutoffs for proxies whose purpose it is to estimate Standard of living, Health and Education. The second cut-off measures the number of simultaneous proxies for which a family unit is deficient. This defines multi-dimensional poverty. The idea behind the MDI is that being deficient in several ways greatly disadvantages families, because when they suffer deficiencies in only a few areas, they can at least partially mitigate negative effects through other means. It has the advantage of sourcing direct household-level deprivation data in order to construct an index, rather than relying on pre-aggregated data income. However, the MDI relies on house-hold level data, thus missing out on inequalities in intra-household distribution. It includes questions such as "has a child ever died in your household", thus blurring the line between past and present conditions. It also suffers from the imperfect nature of measuring welfare via proxies.

Why is relative inequality bad 1. Economic inefficiency A major problem with being poor, is lacking collateral. This fact very often prevents the poor from taking loans, and thus prevents them from investing in such things as education for their children, expansion of a micro-business, or in developing a new business. Thus, the poor are not producing at their optimal level. These people are much more prone than the lower and middle classes to spending on imported luxury items, and investing outside of the country. Another macro-economic consideration is that unless tax system is highly progressive, high income inequality results in low income tax revenues. Also, it has been argued that progressive tax systems lead to economic inefficiencies. Political considerations When high inequality prevails in an economy, this is often a catalyst for social unrest. This can have positive effects in the long-run, but has been often associated with decreased investment, expenditure on unproductive goods such as personal security, and thus a steadily worsening economic situation. Furthermore, the result of major social upheaval has been very negative for many countries, including loss of lives, and extended periods of economic stagnation. When wealth becomes overly concentrated in a few hands, this has also been shown to lead to policies which favor only a small percentage of the population. This often comes at a cost for overall social welfare, only making things worse.

Economic Development and Income Inequality 1. Dualistic development and Lorenz Curves This way of viewing economic growth is borrowed directly from the Lewis Model, and supposes a large, poor agricultural sector, and a new modern sector. Three situations are described. This results in a group of already richer individuals commanding an even higher proportion of GNI, while the poor in the agricultural sector see their relative income decrease. This has two effects on income distribution. The first is an increase in the number of people who now have wages somewhere between the upper and lower income classes. Income equality in the upper-middle ranges increase, and so the Lorenz curve shift upwards. Meanwhile, those who remain in the traditional sector see their relative share of GNI decrease, and so the Lorenz curve shifts outwards for this region of the income distribution. The net effect is therefore ambiguous: The result is a shift upwards in the Lorenz curve, and therefore a decrease in income inequality. Now that we have considerable amounts of data, we can show that this is generally far from the case, and that economic development is not a determining factor in income distribution patterns. Furthermore, it has been shown that even per-capita GNI is a poor proxy for income distribution. This notion can however be challenged. This tends to decrease economic efficiency by encouraging inefficient economic outcomes and high birth rates.

Economic Characteristics of Poverty 1. However, in many developing nations, most investment and relief has been delivered to urban centres. Women and Children Women and children are disproportionately affected by absolute poverty. These two demographic groups are highly connected because women spend proportionally more of their income on their children than do men. There is thus a higher likelihood that improvements brought about in the lives of women will be passed along to the next generation. Unfortunately, poverty-relief assistance has traditionally been targeted towards males. Women are often marginalized for cultural reasons.

Ethnic minorities and indigenous populations Ethnic minorities and indigenous populations are very often more likely to live in poverty, and lack access to education, medical services and employment. This is often a result of economic, social and political discrimination. A factor here is also statistical discrimination, or a propensity to discriminate because the majority of encounters with a given ethnicity have been deemed negative overall. Policy measures for encouraging inclusive economic growth 1. Altering relative factor prices Developing economies often suffer from high unemployment, while firms continue to invest in capital-intensive forms of production. This is counter-intuitive because high unemployment would suggest that labor prices should be able to compete with capital prices. The explanation is that a number of factors contribute to artificially inflate labor prices, while others artificially decrease the price of capital. It is therefore assumed that by removing these price distortions, firms will increase labor-employment. Asset ownership A root cause of income inequality is inequality in asset ownership including such things as education. Various programs, such as land ownership reform, can be implemented to counter this effect. The net result should be an increased ability to earn sufficient income. Progressive taxation Taxation that increases with income is generally considered to be an effective way of financing programs which can benefit the poor. Note that although progressive on paper, these policies can be regressive in reality because the rich tend to receive much of their income via asset ownership rather than directly in the form of wages. Direct transfers This has been used in many contexts, but runs the risk of being abused both by those in need, and those not in need. A good way of getting around these problems is through workfare programs, which reward the poor for work that they do at such low wages that only the most desperate would have enough incentive to take advantage of the program.

3: Humanity Divided: Confronting Inequality in Developing Countries | UNDP

GINI Coefficient Measures inequality using the Lorenz Curve: (area between Lorenz Curve and 45° line)/(area under 45° line). High income inequality is generally while low income inequality is generally situated around

4: Chapter 6: Inequality and Poverty | Economics of Development, 7e: W. W. Norton StudySpace

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5: Economic Development Todaro Smith Chapter 5 PPT | Xpowerpoint

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ECONOMIC DEVELOPMENT Chapter 5 POVERTY, INEQUALITY AND DEVELOPMENT by Michael P. Todaro and Stephen C. Smith Critical Questions this chapter answer.

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