Lesson 13: Income Inequality
Reading: Chapter 27

In this lesson we will:
- Discuss why there is income inequality in the US and why it is growing
- Examine the extent of poverty in the US and how government policies affect poverty

Why do Earnings Differ?
- People with the same intelligence and education can have widely different earnings
- Individuals prosper by providing services that are highly valued by others (examples?)
- In the US that top quintile earns 47.5% of all the income & the bottom quintile 4.3%
- Taxes and transfer programs (such as?) slightly decrease income inequality (how?)

Much of the statistical inequality results from lumping together families of different ages and sizes. At what ages do families earn the highest income and what ages do they earn the lowest? Who would earn more, smaller or larger families?
- Families in top quintile worker 2.9 times as much as families in bottom quintile (per hour they only earned 3.9 times more as families in bottom quintile).

Why is income inequality increasing in the US?
- Between 1970 and 2000, the number of single families has doubles to 27% and women participation increased from 40% to 61%. How would this affect inequality?
- The earnings premium of college graduate doubled to over 50% (why?)
- Larger more integrated markets helped executives increase their earnings
- Changes in the tax code encourage individuals to report more of their earnings
- 54% of all poor have made it out of the bottom quintile within 10 years and 7.8 made it to the top quintile (what characteristics do you think these 7.8% have in common?)

Inequality may not be as severe as statistics suggest.
- There is considerable amount of income mobility in the United States.
- The difference in expenditure is 5.2 between the top and bottom earners, which is significantly smaller that the income difference (how is this possible?)

Poverty in the US:
- In 2000, 11.3% of all individuals (8.6% of all families) were below the poverty threshold income level down from 22.2% (18.1% of families) in 1960
- Only 53% of poor households heads worked in 2000 (down from 70% in 1959) Why?
- The median spell for poverty is 4.8 months. What can cause temporary poverty?

President Johnson declared a War on Poverty and expanded both means-tested income transfers and total transfers about threefold. Despite of it there was little change in poverty in the 1970s and in the 1980s it slightly increased.
- Transfer payments encourage unemployment (how can this be avoided?).
- Income-linked transfers create and implicit marginal tax rate (example, food stamps).
- Income inequality results from differences in endowments and choices.