












AQA Economics AS-level **Microeconomics**

Topic 5: Market Mechanism, Market Failure and Government Intervention in Markets

5.7 An inequitable distribution of income and wealth

Notes



-  Income refers to a flow of money, for example from a job, interest payments, rents or dividends.
-  Wealth refers to a stock of assets, such as holding shares in a company or owning a house.
-  In the absence of government intervention, the market mechanism is likely to result in a very unequal and inequitable distribution of income and wealth.
-  An unequal distribution can lead to negative externalities, such as social unrest.
-  In a market economy, an individual's ability to consume goods and services depends upon their income and wealth and an inequitable distribution of income and wealth is likely to lead to a misallocation of resources and hence market failure.
-  Some consumers might not be able to buy goods and services at all.
-  Those with the lowest incomes are the unemployed, the underemployed, the elderly and low skilled workers.
-  Governments can use progressive taxes and government spending to reduce inequality.
-  Progressive taxes take more income from the rich less from the poor. In the UK, income tax is progressive.
-  With government spending on welfare payments, the inequality between the richest and poorest can be reduced.
-  An example of a welfare payment is when the unemployed receive Job Seeker's Allowance, to help support them whilst looking for a job.

