

# Edexcel (B) Economics A-level

## Theme 3.6: Inequality and Redistribution

### Flashcards

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# Define absolute poverty



## Define absolute poverty

This occurs when a person lives below subsistence, not being able to meet their basic needs



# Define relative poverty



## Define relative poverty

This is measuring a person's poverty relative to the average of the country they reside in



# What are the two measures of poverty?



# What are the 2 measures of poverty?

1. Human Poverty Index (HPI)
2. Lorenz curve and Gini coefficient



# What is the difference between HPI-1 and HPI-2?





What is the difference between HPI-1 and HPI-2?

HPI-1 measures poverty in developing countries, while HPI-2 measures poverty in developed countries



What three factors does the HPI take into account?



# What three factors does the HPI take into account?

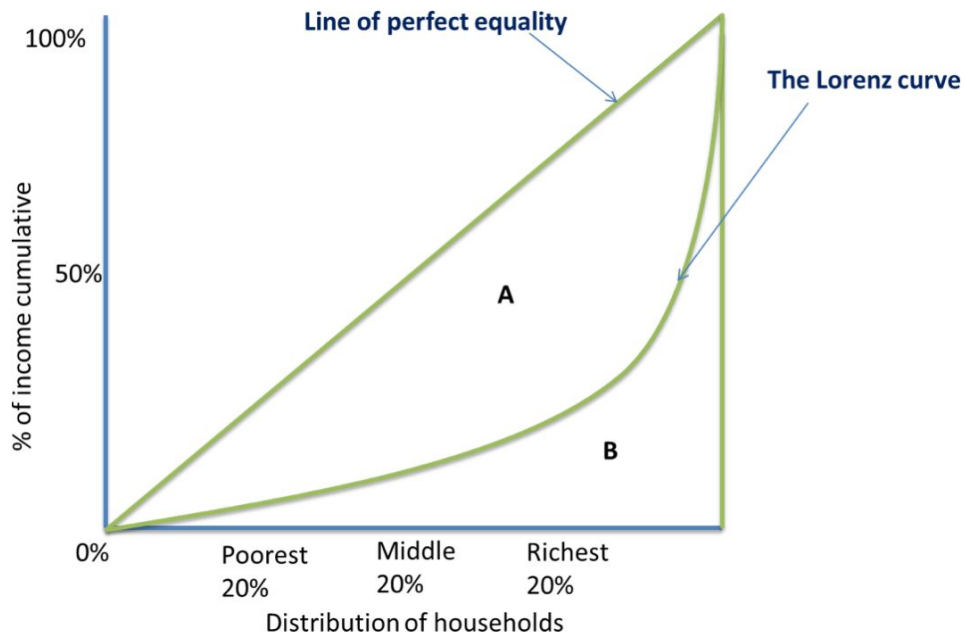
1. Life expectancy
2. Education
3. Ability of citizens to meet basic needs



Draw a graph illustrating the Lorenz curve and the line of perfect equality



# Draw a graph illustrating the Lorenz curve and the line of perfect equality



How does the Lorenz curve differ from the line of perfect equality?



How does the Lorenz curve differ from the line of perfect equality?

The line of perfect equality shows a utopian economy, whereas the Lorenz curve shows a realistic relationship of income distribution



# What does the Gini coefficient show?





# What does the Gini coefficient show?

This gives a numerical value showing the inequality in a country



Give the formula for the Gini coefficient?



Give the formula for the Gini coefficient?

$$\text{Gini} = A / (A+B)$$



What does a value of 0 indicate in the Gini coefficient?



What does a value of 0 indicate in the Gini coefficient?

Perfect equality



# How does economic growth differ to economic development?



How does economic growth differ to economic development?

Economic growth refers to an increase in GDP, whereas the latter refers to an improvement in living standards and life expectancy



Which country has Africa received the most aid from?





Which country has Africa received the most aid from?

China



# How can FDI help reduce poverty?



## How can FDI help rescue poverty?

It creates employment in the area where the businesses are set up, thus providing citizens with more income



# What are microfinance schemes?



# What are microfinance schemes?

This involves borrowing small amounts of money to fund new enterprises



# Who are the usual recipients of microloans?



# Who are the usual recipients of microloans?

People who don't have a suitable credit score for a loan from the bank



# How would inequality motivate workers?





# How would inequality motivate workers?

It would encourage them to work harder, become more productive and gain a higher wage rate



# How are monopolies linked to inequality?



## How are monopolies linked to inequality?

Monopolies have the market power to exploit consumers by charging high prices, thus increasing profits for big firms but leaving consumers with less income as a result



# How can government intervention help reduce wealth inequality?



How can government intervention help reduce wealth inequality?

By charging inheritance taxes, the upper class keep less of their wealth, thus reducing the inequality gap



Give one social cost of inequality



Give one social cost of inequality

Social unrest



Describe the difference between wealth  
and income





Describe the difference between wealth and income

Wealth is a stock of assets, whereas income is money received on a periodic basis



# What is the poverty trap?



# What is the poverty trap?

A mechanism which forces people to remain in poverty



# How could taxes become a poverty trap?



# How could taxes become a poverty trap?

If income taxes are too high, workers may be demotivated to work longer hours as they know they'll receive the same income once taxes are deducted



# Describe a progressive tax



# Describe a progressive tax

This is when the tax rate increases as income increases



How does negative income tax differ from conventional income tax?





How does negative income tax differ from conventional income tax?

Negative income tax is when a worker earns below a certain income level, so instead of paying taxes the government gives them money

