Definitions and Concepts for AQA Economics A-level

Paper 1: Microeconomics

Topic 7 – The Distribution of Income and Wealth: Poverty and Inequality

Absolute poverty: When a person doesn't have enough income to fulfil basic needs.

Distribution of income and wealth: The way in which total income and wealth are divided among the population of the economy.

Earnings trap: Situations where the more an individual earns, the less they are entitled to, making it hard to escape poverty.

Equity: Fairness, justness. Involves value judgements.

Fiscal drag: As wages rise, a higher proportion of income is paid in tax

Gini coefficient: Measures income or wealth inequality; maximum inequality is 1.

Horizontal equity: People in identical circumstances are treated equally.

Hysteresis: Effects that persist even after the initial causes giving rise to the effects are removed.

Inequity: Unfairness, unjustness. Involves value judgements.

Kuznets hypothesis: Theory that as an economy grows, inequality is initially increased, then decreased.

Lorenz curve: Can be used to illustrate and measure distributive inequalities.

Means tested benefits: Entitlement to certain benefits depends on whether the income or wealth of an individual is below a certain level.

Poverty trap: Where a rise in income leads to a decrease in eligibility in benefits, forcing individuals deeper into poverty.

Vertical equity: People in different circumstances are treated unequally yet fairly.