

Edexcel (B) Economics A-level
Theme 3: The Global Economy

3.6 Inequality and Redistribution

3.6.3 The impact of inequality on economic agents

Notes



 **On individuals**

 **On firms: connections between low income and low productivity**

 **On the economy**

Inequality motivates workers, which encourages them to learn new skills and work hard. A higher wage reflects higher productivity in a capitalist society, which results in wage inequality.

Monopolies can exploit consumers with higher prices, and exploit their consumers with lower wages. This allows them to earn even higher profits.

Inheritance is passed down generations, which means wealth is often concentrated in the hands of a few families. Those who inherit lots have more wealth. They can also access the best education and therefore the best jobs, which is not accessible by those with less wealth. It results in an inequality of opportunity and income. Wealth can generate more income for the rich, which widens inequality.

There can be income redistribution and wage equality through government intervention. For example, inheritance tax means rich families cannot keep their entire wealth. Moreover, state education means everyone can access education, and there is regulation for firms with monopoly power.

Inequality could discourage and demotivate those on lower incomes from participating in society. An unequal distribution can lead to negative externalities, such as social unrest. This could mean that low income workers have less of an incentive to be productive than those who are earning high incomes. This could be because they feel less involved in society, or because they have a lower educational attainment, so their skillset is lower.

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.

