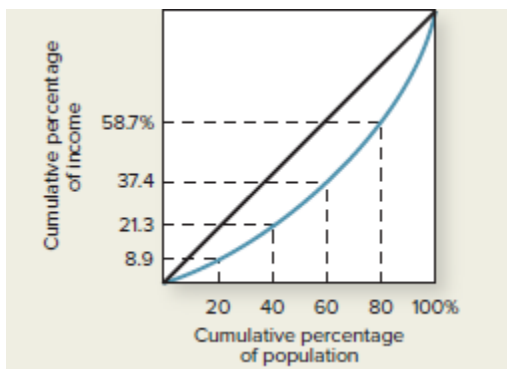


CH.18 EXTRA QUESTIONS

1. The Lorenz curve for Bangladesh looks like this:



How much income do individuals in the top income quintile in Bangladesh receive?

2. What would the Lorenz curve for lawyers represent?
3. Why are we concerned with the distribution of income between whites and blacks, but not between redheads and blondes?
4. The accompanying table shows income distribution data for three countries:

	Percentage of Total Income		
Income Quintile	India	Czech Republic	Mexico
Lowest 20%	8.6%	10.2%	4.4%
Second quintile	12.2	14.3	8.9
Third quintile	15.8	17.5	13.3
Fourth quintile	21.0	21.7	20.4
Highest 20%	42.4	36.3	53.0

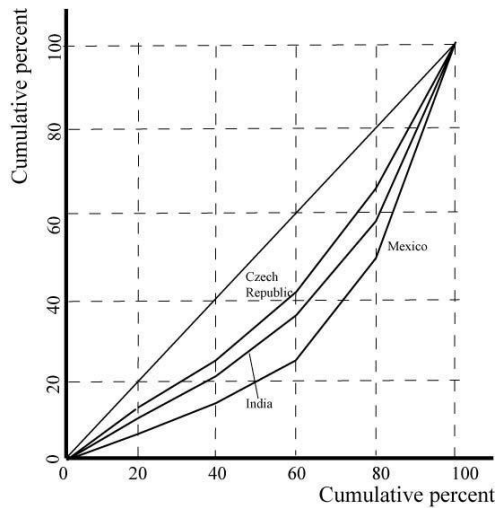
 - a. Using this information, draw a Lorenz curve for each country.
 - b. Which country has the most equal distribution of income?
 - c. Which country has the least equal?
 - d. By looking at the three Lorenz curves, can you tell which country has the most progressive tax system? Why or why not?
5. Should poverty be defined absolutely or relatively? Why?
6. How does social mobility in the United States compare to that in Britain? Why do you think this is so?
7. Would the Lorenz curve for the world be more or less bowed out compared to the Lorenz curve for the United States?

8. How has the median income of women compared to men changed since 1980? What do you think is the cause?
9. Is the class system in the United States more like a pyramid, diamond, or pentagon? Why is this so?
10. Why did Bertrand de Juvenal argue for a high level of income inequality?
11. In what instance would John Rawls support greater income inequality?
12. In Taxland, the first \$10,000 earned per year is exempt from taxation. Between \$10,000.01 and \$30,000, the tax rate is 25 percent. Between \$30,000.01 and \$50,000, it's 30 percent. Above \$50,000, it's 35 percent. You're earning \$80,000 a year.
 - a. How much in taxes will you have to pay?
 - b. What is your average tax rate?
 - c. What is your marginal tax rate?
13. Some economists have proposed making the tax rate progressivity depend on the wage rate rather than the income level. Thus, an individual who works twice as long as another but who receives a lower wage would face a lower marginal tax rate.
 - a. What effect would this change have on incentives to work?
 - b. Would this system be fairer than our current system? Why or why not?
 - c. If, simultaneously, the tax system were made regressive in hours worked so that individuals who work longer hours face lower marginal tax rates, what effect would this change have on hours worked?

Answers

1. The top 20 percent of individuals in Bangladesh earn 41.3 percent ($= 100 - 58.7$) of the income.
2. A Lorenz curve is a geometric representation of the size distribution of income among families in a given country at a given time. To do this just for lawyers, you would be showing how income is distributed just among members of that profession. (It might surprise people to find out that the distribution is not as even as they might think.)
3. Research has shown that income differs substantially between men and women, and between white and Black people. Some of these variations are the result of sociological and cultural differences, but a substantial fraction is the result of discrimination. There is little evidence to indicate discrimination exists on the basis of hair color, although there might be some.

4. a. See the accompanying graph.



- b. A perfectly equal distribution of income would be shown by a diagonal line; thus, the country with the most equal distribution of income among the three is the Czech Republic.
- c. The country with the least equal distribution of income among these three is Mexico.
- d. One could not tell which country has the most progressive tax system without looking at the curves over time and examining other factors that determine the curves' shapes.
5. Arguments could be made for both approaches. Poverty could be defined relatively since one of our concerns is the distribution of income and the gap between the rich and poor. Poverty could also be defined absolutely since another of our concerns is that people have enough to eat, which is an absolute concept.
6. As the text describes, people face less social mobility in the United States than in Great Britain. It is difficult to say why this is true. Perhaps there is greater discrimination in the United States, which is keeping people from moving up the income ladder. Perhaps the growing number of illegal immigrants, by holding down growth in wages in the middle-to-lower end of the pay scale, is also limiting social mobility. The growing number of illegal immigrants would tend to depress wages of lower-paid workers, keeping them in lower-income brackets. It is also possible that the tax structure is more progressive in Great Britain than in the United States.

7. The Lorenz curve for the world would likely be more bowed out than the United States since income is very widely disparate among countries.
8. As a fraction of men's income, women's income has risen (from 60 percent in 1960 to about 85 percent in 2021). There are likely a variety of reasons including lower discrimination against women, higher education levels among women, and more women entering the workforce.
9. The class system in the United States today looks more like a pentagon than a diamond or pyramid because there is a very large middle class, a somewhat smaller lower class, and a very small upper class. The reason for this is that upward mobility in the United States is limited as well as the effect of globalization on the labor market—reducing jobs and income for low-skilled labor in the tradable sector, which expanded the lower class. Those in the middle class and who worked in the tradable sector remained in the middle class.
10. Bertrand de Juvenal believed that a high level of income inequality was necessary to sustain the arts, beauty, education, and civilization.
11. John Rawls believed that some inequality may be necessary as long as it makes the least well-off better in absolute terms.
12. a. You will pay no tax on the first \$10,000; \$5,000 on the next \$20,000; \$6,000 on the next \$20,000; and \$10,550 on the remaining \$30,000, for a total tax payment of \$21,500.
b. Dividing \$21,500 by your income of \$80,000 gives an average tax rate of 26.87 percent.
c. The marginal tax rate will be the tax on one more dollar of income, which in your case will be 35 percent.
13. a. This would increase the incentive to work since working longer hours will not push one up into the higher tax bracket.
b. Questions of fairness are normative and have no right answer. To the extent that people believe that hard workers shouldn't be highly taxed for their extra effort, this tax structure would be considered fairer.
c. Making the tax system regressive in hours worked would further increase the

incentive to work longer hours, likely increasing the average number of hours worked.