Chapter 7 Review: Income Redistribution: Conceptual Issues

Readings: Rosen: Chapter 7, all

Outline

I. Inequality/Equality in the U.S.
   A. % below poverty line
   B. Income ratios: Measuring the Gini coefficient
   C. Difficulties measuring Income Distribution
   D. U.S. Data
      1. U.S. compared to its Past
      2. U.S. compared to rest of world

II. Rationales for Re-distributing Income
   A. Equalizing income distribution as a public good (or external benefit)
   B. Utilitarianism
   C. Additive Social Welfare Function
   D. John Rawls MaxiMin criterion
   E. Commodity Egalitarianism
   F. Other factors

III. Analyzing Incidence of Transfers
    Transfers in Kind vs Cash

Problems

1. End of chapter Discussion Question # 2.
2. End of chapter Discussion Question # 3.
3. End of chapter Discussion Question # 4.
4. End of chapter Discussion Question # 5.
5. Here’s some data! (Easy … don’t get too excited. Breath deeply!)

<table>
<thead>
<tr>
<th>Year</th>
<th>Income share of poorest 20%</th>
<th>Income share of 2nd poorest 20%</th>
<th>Income share of middle 20%</th>
<th>Income share of 2nd richest 20%</th>
<th>Income share of richest 20%</th>
<th>Income Ratio richest 20% share poorest 20% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>5 %</td>
<td>15 %</td>
<td>18 %</td>
<td>22 %</td>
<td>40 %</td>
<td>First column</td>
</tr>
<tr>
<td>2015</td>
<td>5 %</td>
<td>8 %</td>
<td>18 %</td>
<td>29 %</td>
<td>40 %</td>
<td>Second column</td>
</tr>
</tbody>
</table>

a. Calculate the income ratio of the richest quintile to the of the poorest quintile for each year.
6. How permanent is the “underclass of poverty” in America and how does this affect the usefulness of poverty and income distribution statistics? More specifically, answer the following questions.

a. What (roughly) are the “turnover” rates among the highest and the lowest income groups (the poorest 20% and the richest 20%)? Give me some numbers (p 148).

b. When measuring poverty and income distribution, we tend to use data that is a snapshot of the economy at a given point in time (i.e. we use “stock” data, not “flow” data). If there is a good degree of mobility between income groups, does this mean the poverty is less of a problem or more of a problem that our snapshots indicate? Explain your answer.

7. Assume that John Rawls has been hired by a government to design an income redistribution program. John has been given free reign to design the system as he pleases. Further, assume that he is a true believer in what he has written regarding social welfare functions.

a. What social welfare function does John Rawls espouse?

b. What type of system would John Rawls likely design? In particular, what its priorities be? To be even more precise, how far would John Rawls be willing to go to help out the poorest elements of society?

8. Assume that Jeremy Bentham Jr. has been hired by a government to design an income redistribution program. Jeremy (His friends call him Jer) is a strong believer in the additive social welfare function.

a. Describe this additive social welfare function.

b. What type of system would Jeremy likely design? In particular, what its priorities be? To be even more precise, how far would Jeremy be willing to go to help out the poorest elements of society?

c. In a two person model, explain how Jeremy would distribute income between the two people. Make any assumptions you have to make (provided that are in the same vein as those made in class and the book).

9. Erda is a consultant for the government of Gothland. She is assisting the government in developing a program designed to help the poor. Her task is to explain the pros and cons of 1) a system in which the poor receive cash, and 2) a system in which the poor receive vouchers useable only for specific products (ex. food stamps and housing vouchers).

a. Explain the basic difference between the two programs using indifference curve analysis. Which type of program does indifference curve analysis tend to support? Why?

b. Are there any arguments for the other type of program? Is so, what are they?