

Macroeconomic Objectives

1. Full employment
2. Low and stable inflation
3. High economic growth

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4. Equity in the Distribution of Income



Income Distribution

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□ Equity is not the same as Equality

The Lorenz Curve and the Gini coefficient

Income Distribution

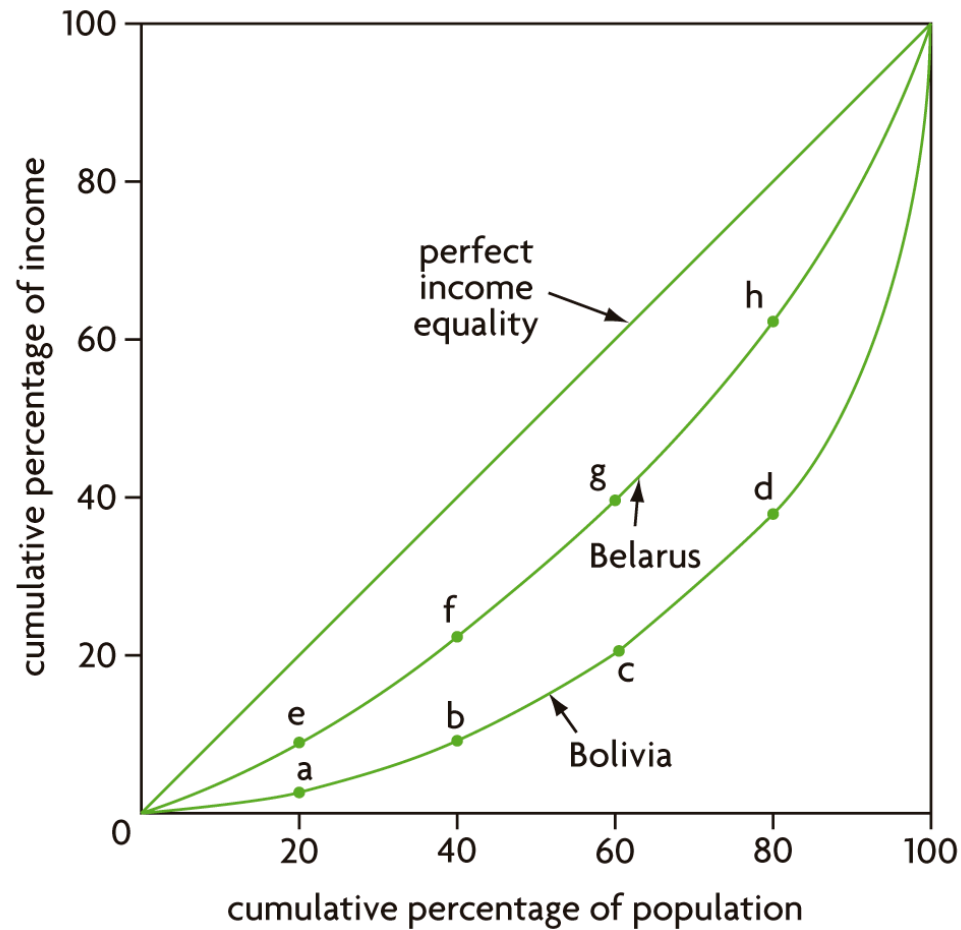
Country	Poorest 20% of people	Second 20% of people	Third 20% of people	Fourth 20% of people	Richest 20% of people
Belarus (2007)	8.8	13.4	17.5	22.6	37.7
Bolivia (2008)	2.7	6.5	11.0	18.6	61.2

Percentage of total income for each group

Lorenz Curve

- Way to show income inequality graphically

Income Distribution

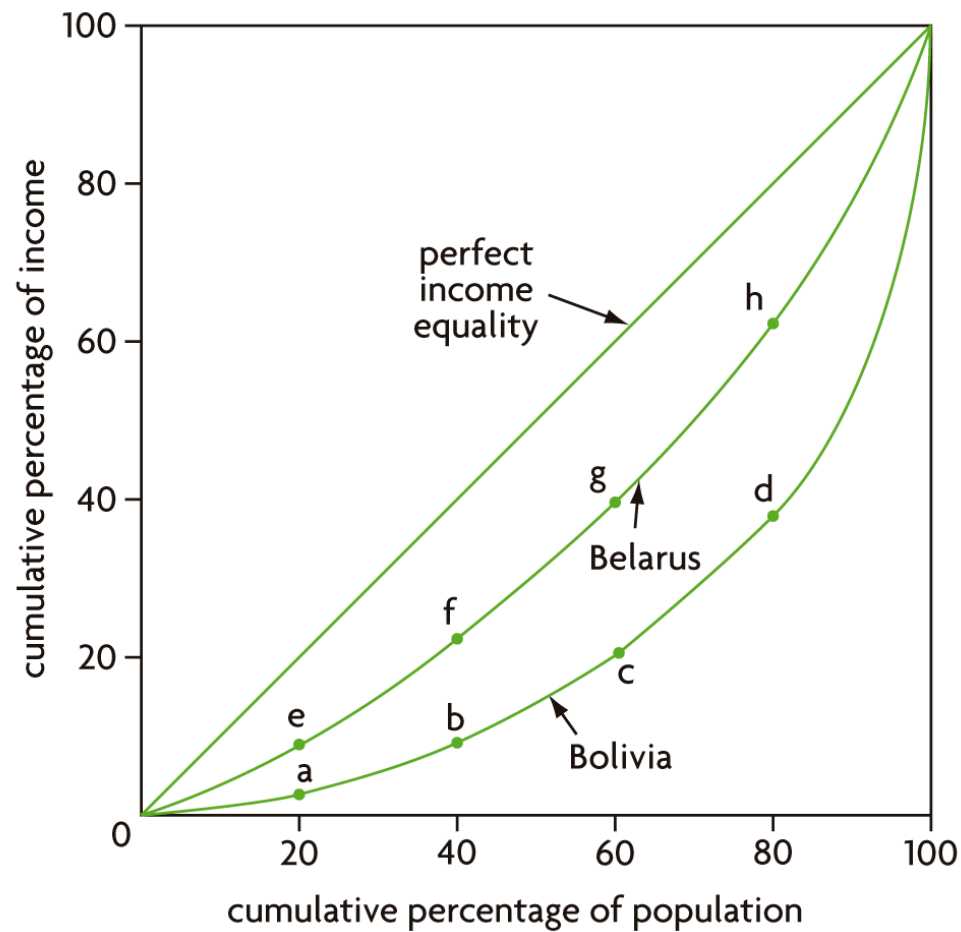


Gini Coefficient

Gini Coefficient

- ▣ Measurement of income inequality
- ▣ Calculated from the Lorenz curve
 - ▣ 0 = perfectly equal
 - ▣ 1 = unequal

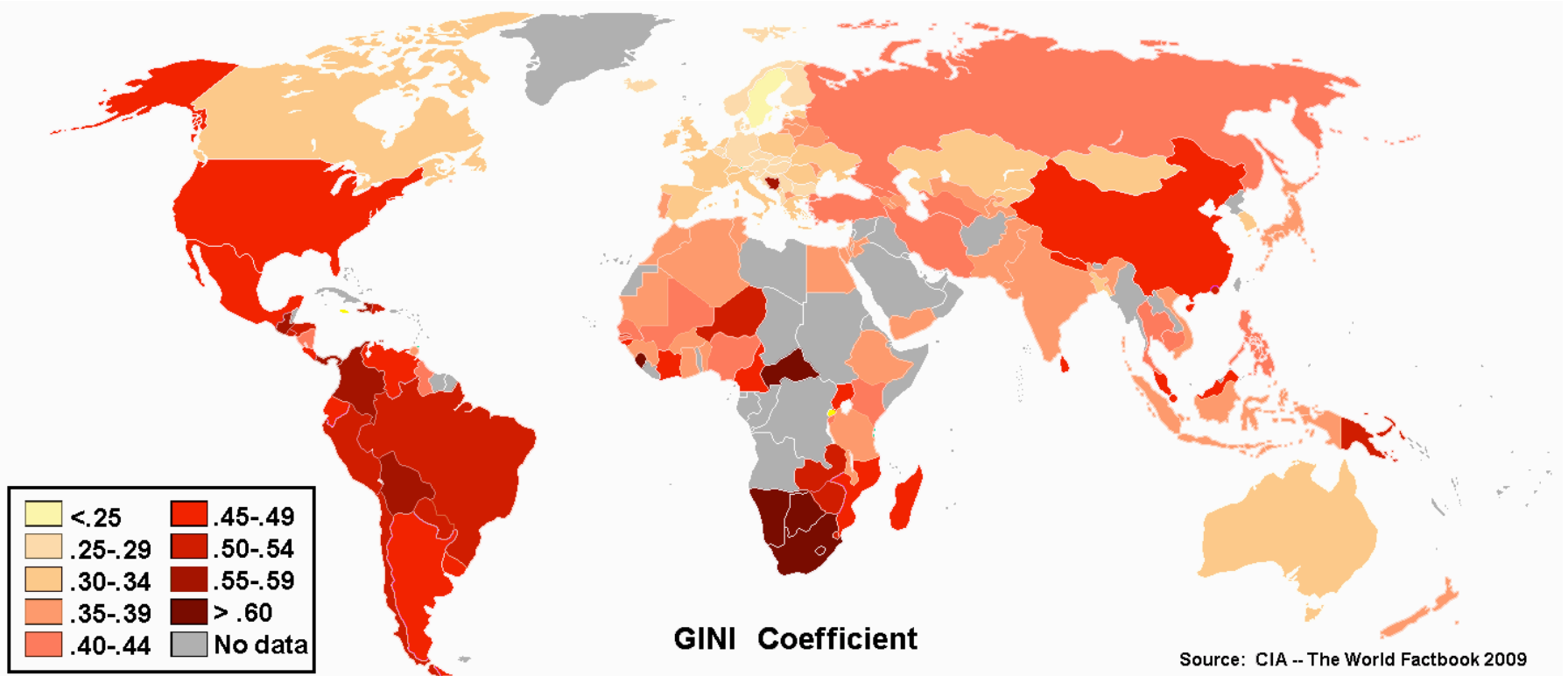
Which country has a higher Gini coefficient?



Income Distribution

Country	Poorest 20%	Second 20%	Third 20%	Fourth 20%	Richest 20%	Gini coefficient
Belarus (2007)	8.8	13.4	17.5	22.6	37.7	0.28
Bolivia (2008)	2.7	6.5	11.0	18.6	61.2	0.58

GINI coefficients





Poverty

Poverty

▣ **Poverty** - when people cannot consume the things they need



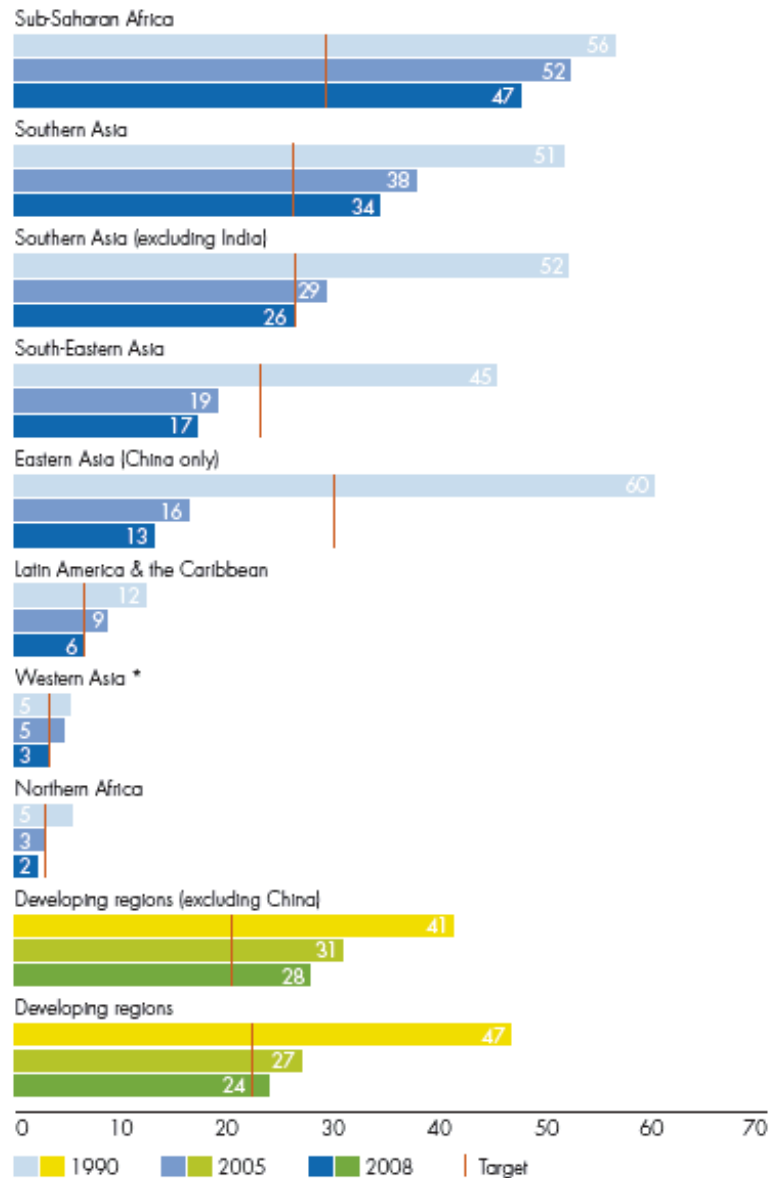
Absolute Poverty

- ▣ **Absolute poverty** – number of people living below a “poverty line”
 - ▣ Example: \$1.25 (37 baht) a day



Extreme poverty falls in every region

Proportion of people living on less than \$1.25 a day, 1990, 2005 and 2008 (Percentage)



Relative poverty

- ▣ **Relative poverty** – Compares people's income to the median income (income in the middle)

Relative poverty (2000-5)

Country	Population living below 50% of median income
Netherlands	4.9
Hungary	6.4
Germany	8.4
U.K.	11.8
Greece	14.3
Ireland	16.2
United States	17.3

Causes of Poverty

1. Low incomes
2. Unemployment
3. Low levels of human capital
4. Low levels of capital or land ownership
5. Discrimination

Causes of Poverty

6. Geography
7. Age
8. Limited Social Services
9. Poverty

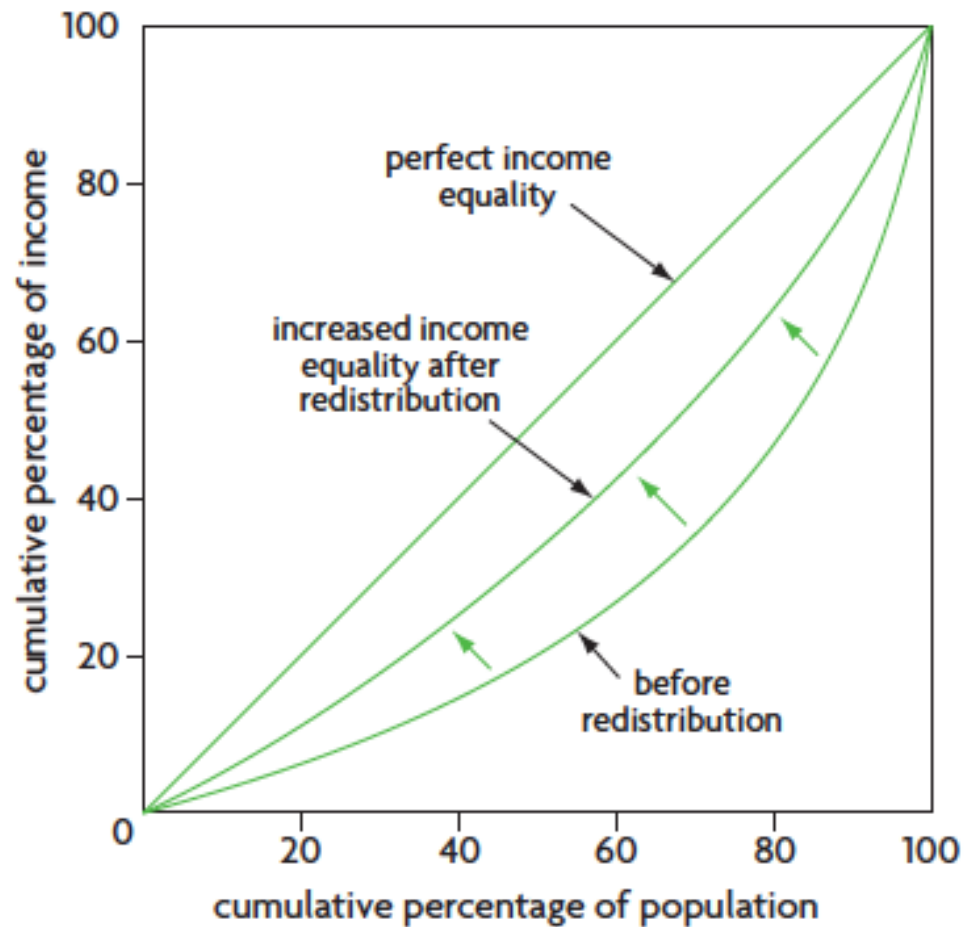
Consequences of Poverty

1. Low living standards
2. Lack of access to education and health care
3. Higher child and maternal mortality rates
4. Higher rate of preventable diseases
5. Social Problems
 1. Crime
 2. Drug use
 3. Family breakdowns
 4. Homelessness



Methods to promote equity

Methods to promote equity



Methods to promote equity

- ▣ **Transfer Payments** – payments made by the government to people with the purpose of redistributing income
- ▣ Examples: Old age pensions, child allowances, unemployment benefits

Methods to promote equity

- ▣ **Subsidized or direct provision of merit goods** – Merit goods are goods that are beneficial for consumers. These goods are provided at low or no cost by the government
- ▣ Examples: Education, health care, water, electricity