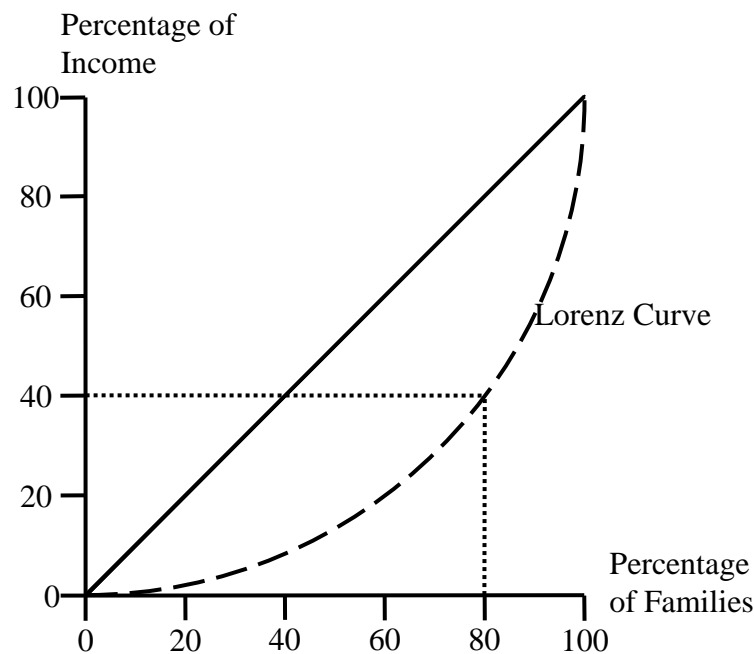


LECTURE 11: INCOME INEQUALITY II

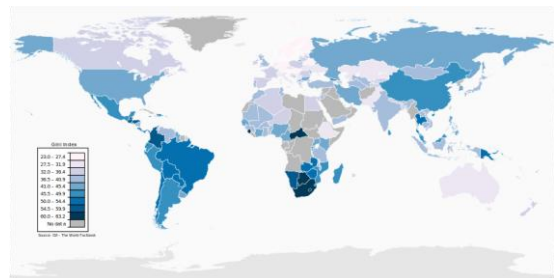
I. Measuring inequality

- a. Imagine we're going to add up everyone's income starting with the lowest and ending with the highest. In a perfectly equal world, the bottom 20% of families will have 20% of income as the top 20% of families has 20% of income. This equal world is represented by a 45-degree line.
- b. The actual distribution is the Lorenz Curve. Like the 45-degree line, it a cumulative distribution. In this example, the top 20% of earners (100 – 80) make 60% of the total income (100 – 40).



- c. If you take the area between the 45-degree line and the Lorenz Curve and divide it by the total area under the 45-degree line, you get what's called the *Gini Ratio*.

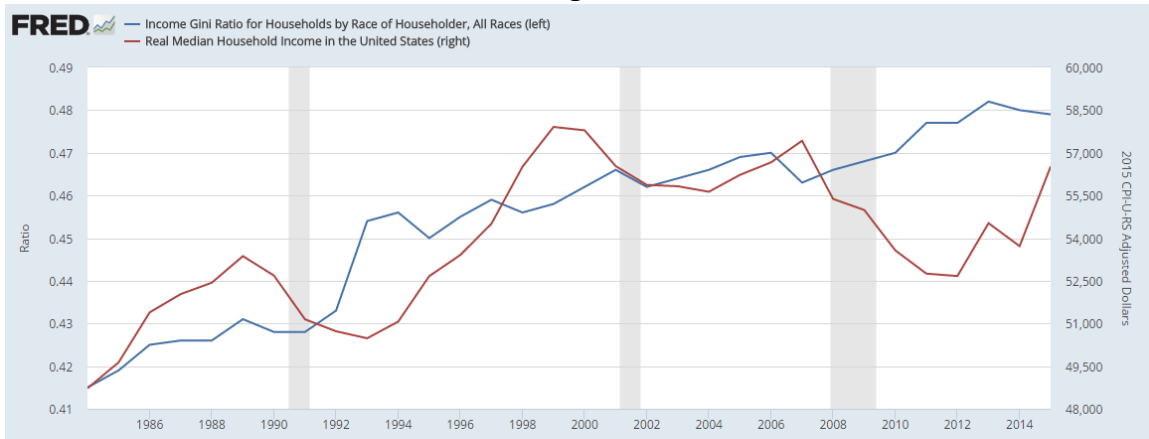
- i. Higher ratios mean more inequality, lower ones mean less inequality.
- ii. It's sometimes multiplied by 100 for ease of interpretation.



- iii. Here's a world map of Gini ratios. Darker countries mean higher Gini ratios.

II. A word of caution

- a. It's tempting to think of higher inequality as bad and lower inequality as good. But how equal or unequal the distribution is does not tell us about a person's quality of life.
 - i. If the poorest people are getting richer and everyone else is getting richer at a faster rate that means more inequality. But that doesn't mean the poorest are worse off.



- ii. Note here that while there are times Gini and median income move in opposite directions, sometimes they move in the same direction as they did in the 1990s.

- b. We see this also with claims of the shrinking middle class. It's true that fewer Americans are in what's typically considered "middle class." But that's not because they are getting poorer. It's because they are getting richer.

- i. Pew Research Center defines "middle" and "upper" incomes based on the size of the household, as below.

Share of adults living in middle-income households is falling

% of adults in each income tier

	Lowest	Lower middle	Middle	Upper middle	Highest
2015	20	9	50	12	9
2011	20	9	51	12	8
2001	18	9	54	11	7
1991	18	9	56	12	5
1981	17	9	59	12	3
1971	16	9	61	10	4

Note: Adults are assigned to income tiers based on their size-adjusted household income in the calendar year prior to the survey year. Figures may not add to 100% due to rounding.

Source: Pew Research Center analysis of the Current Population Survey, Annual Social and Economic Supplements.

PEW RESEARCH CENTER

Who is "middle income" and "upper income"?

Minimum 2014 household income needed to qualify for middle- and upper-income tiers, by household size

	1	2	3	4	5
UPPER INCOME	\$72,521	102,560	125,609	145,041	162,161
MIDDLE INCOME	\$24,173	34,186	41,869	48,347	54,053

Note: Middle-income Americans are adults whose annual size-adjusted household income is two-thirds to double the national median size-adjusted household income. Lower-income households have incomes less than two-thirds of the median and upper-income households have incomes that are more than double the median.

Source: Pew Research Center analysis of the 2015 Current Population Survey, Annual Social and Economic Supplement

PEW RESEARCH CENTER