

ECN 1A

Introductory Microeconomics

Gregory Clark

Basic Issues in Economics

- **Production** – how much is produced, and what type of things?
- **Distribution** – who gets the output?

Production

Country	GDP per person	Hours Market Employment per Adult	Marginal Tax Rate	Social Spending (% of GNP)
	2010 (\$)	2000	2000 (%)	1995
USA	46,860	1,364	34	19
Germany	36,081	1,010	65	29
France	33,910	1,003	56	33
Sweden	38,204	1,189	49	40

Distribution

USA – share of Income going to top 1%, 1-5%, 5-10%

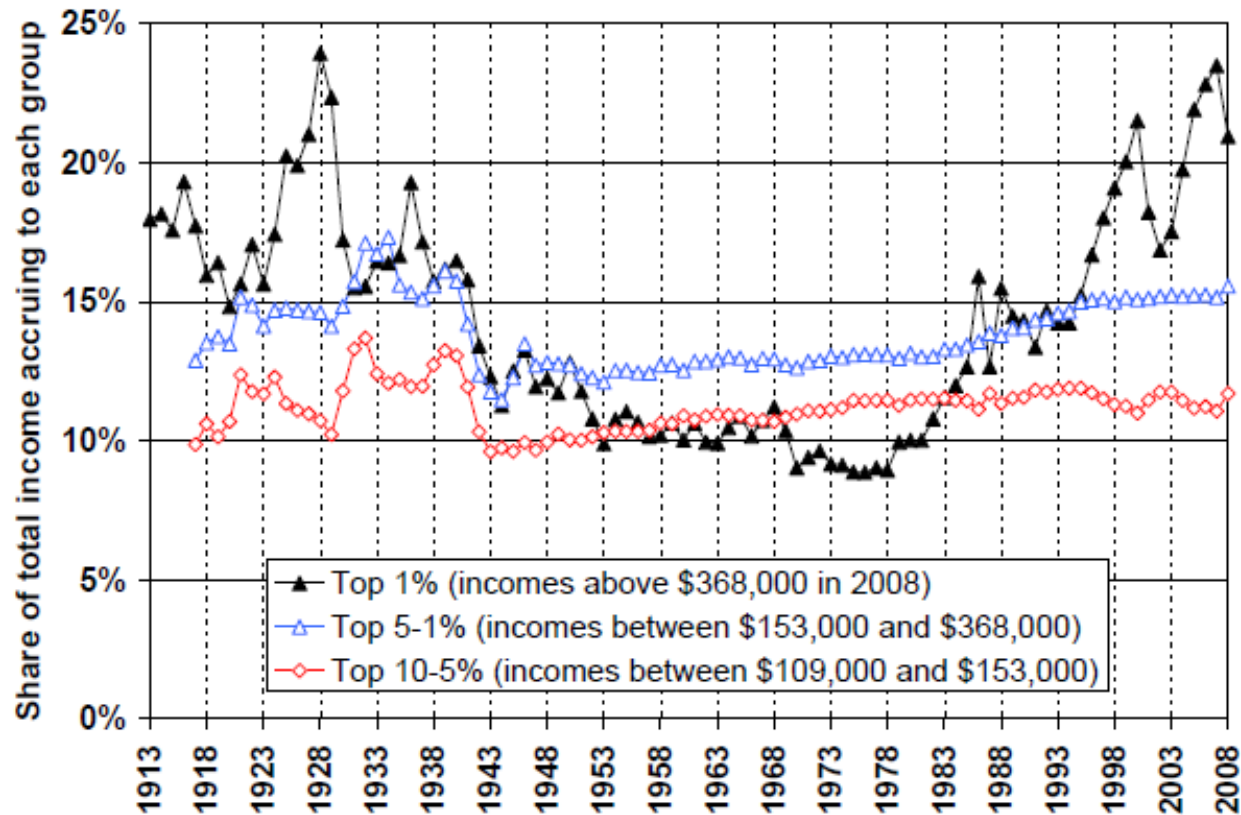
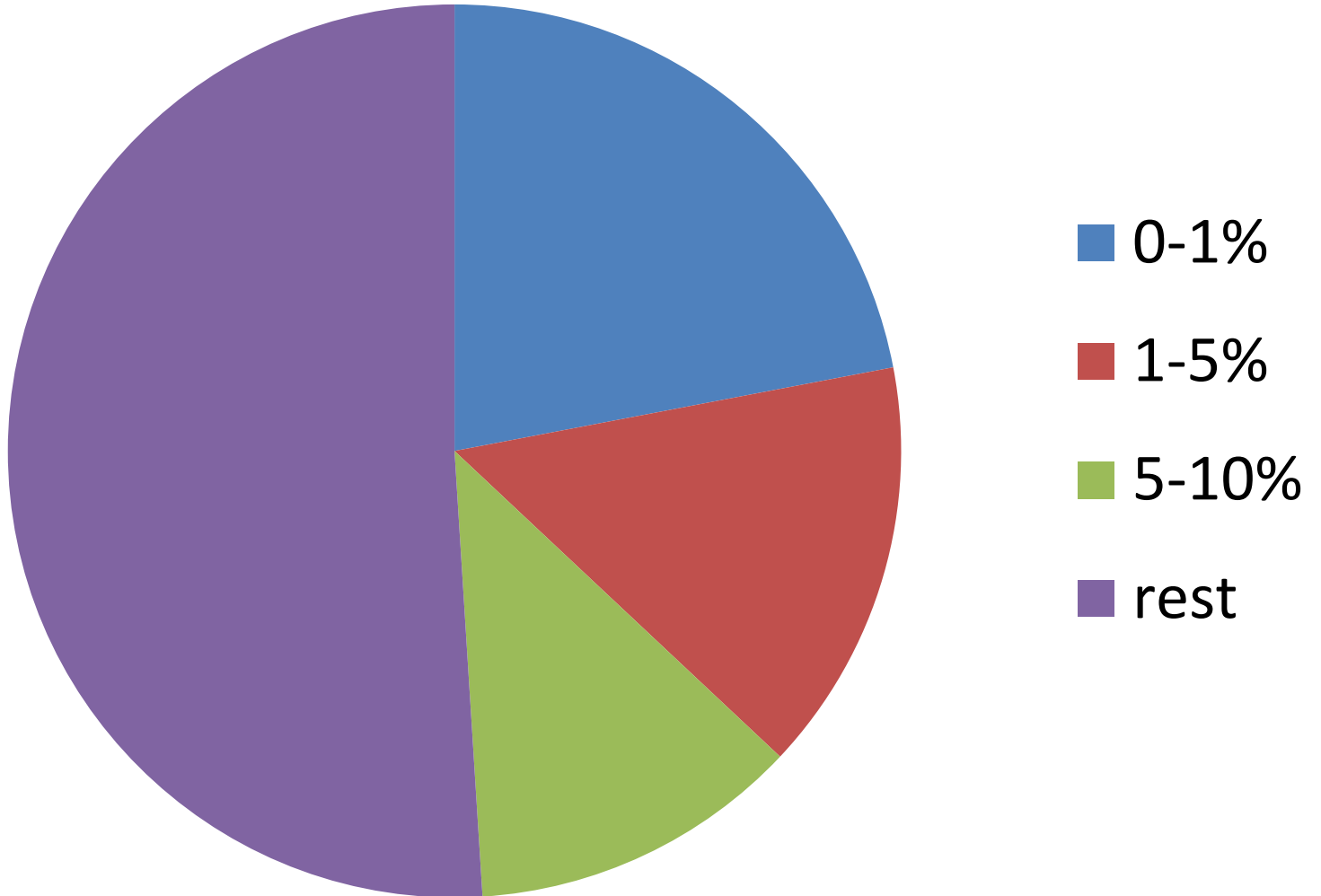
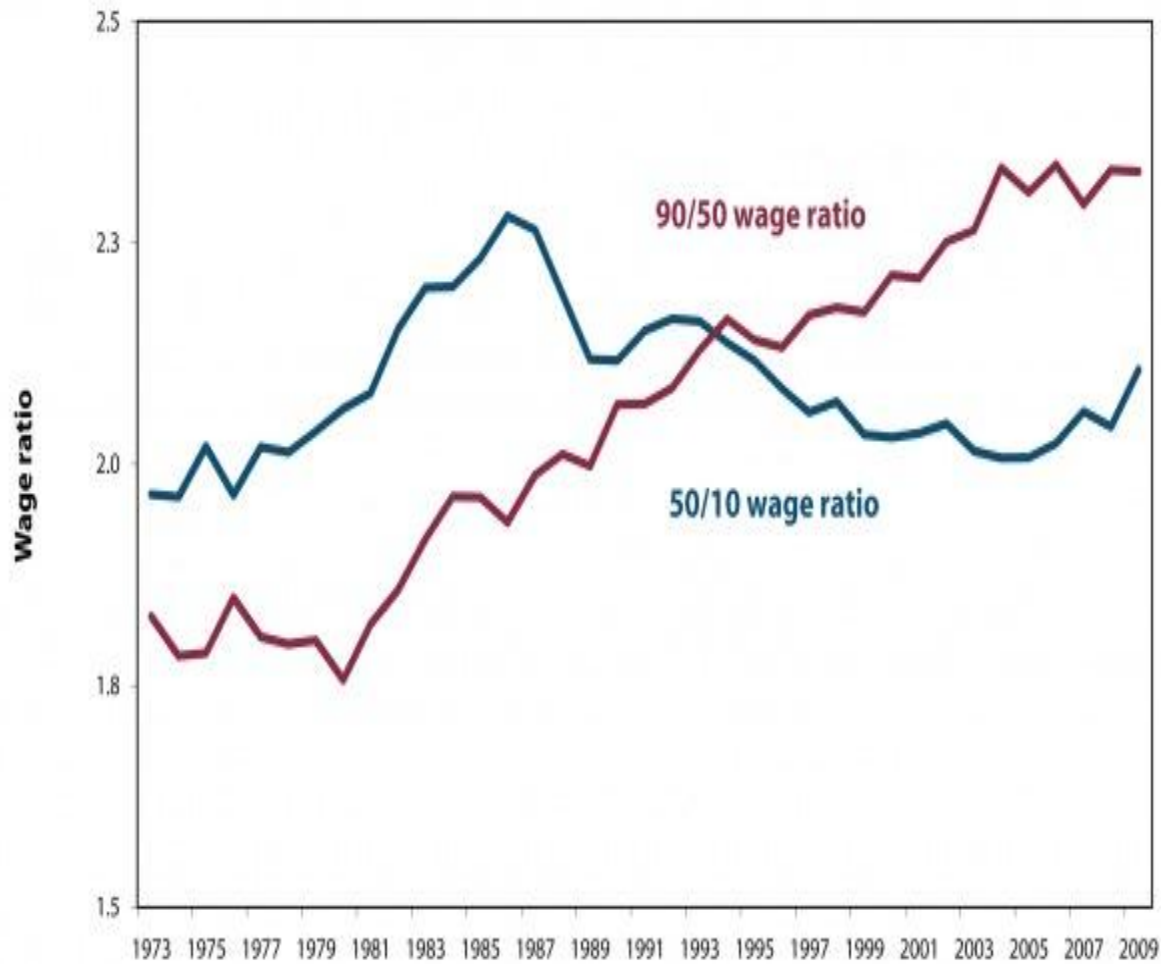


FIGURE 2

Decomposing the Top Decile US Income Share into 3 Groups, 1913-2008

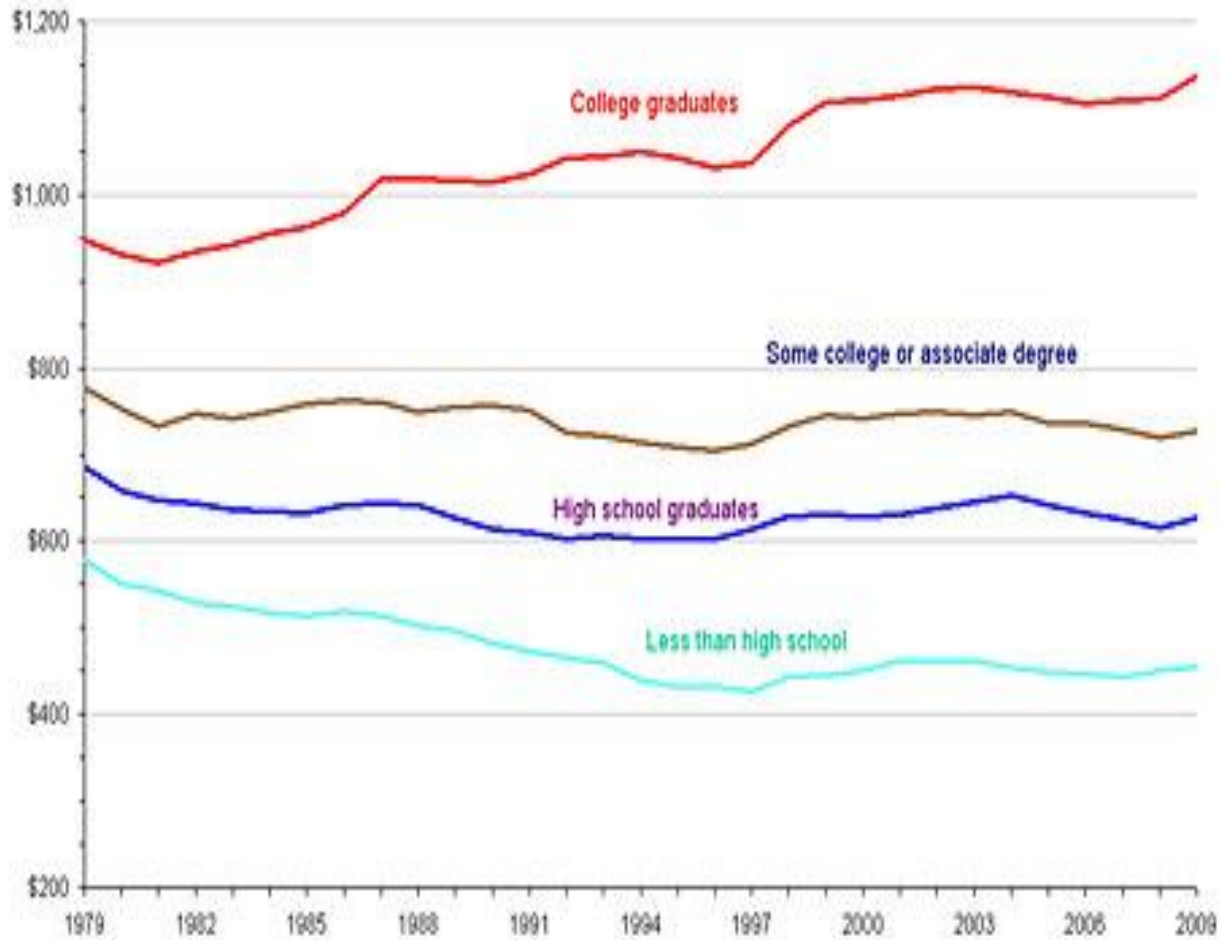
Income Shares, USA





Source: <http://www.stanford.edu/group/scspi/cgi-bin/fact1.php>

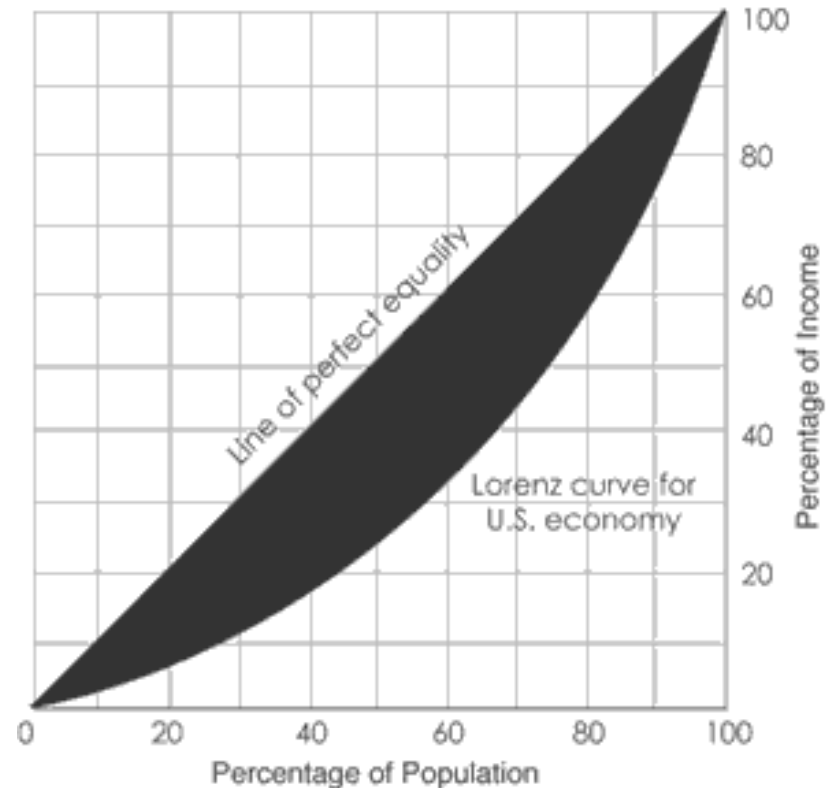
Real median weekly earnings for college graduates have trended up over time



Source: <http://www.stanford.edu/group/scspi/cgi-bin/fact4.php>

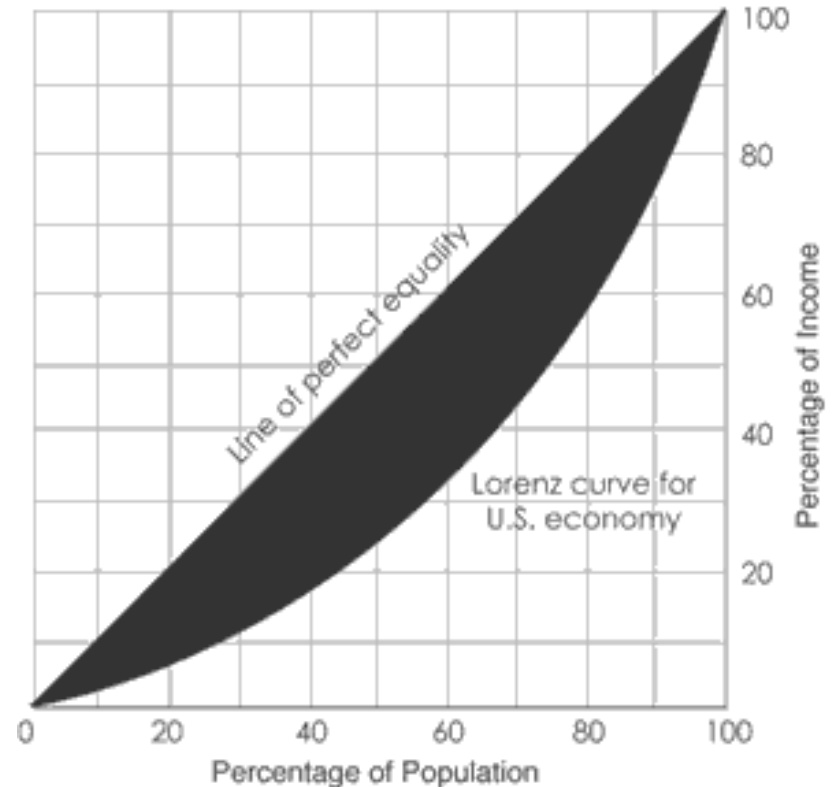
The Lorenz Curve

- A **Lorenz curve** can be used to represent the degree of inequality in an economy.
- The horizontal axis representing the percentage of the population and the vertical axis the percentage of all income earned by those at or below each population percentile.
- In an economy in which income was distributed equally, the poorest 20 percent of the population would earn 20 percent of all income, and so on, so the Lorenz curve would be a straight line.
- If income is not distributed equally, the Lorenz curve sags toward the lower right-hand corner of the box.



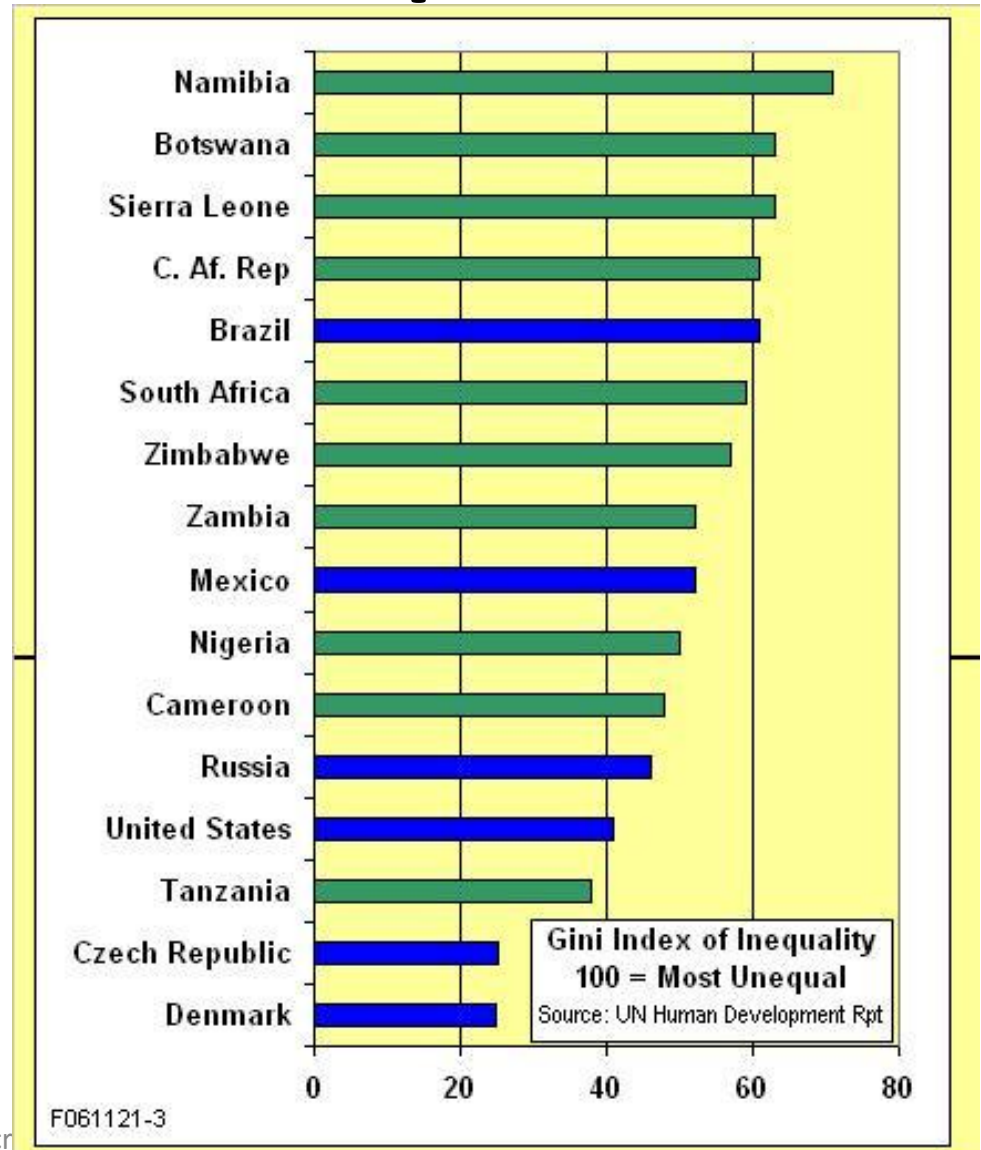
The Gini Coefficient

- The degree of inequality can be measured by the **Gini coefficient** —the ratio of the shaded area between the Lorenz curve and the line of perfect equality to the area of the whole triangle beneath the line of equality.
- The **Gini index** reports the same information on a scale of 1 to 100
 - An index of 0 means perfect equality
 - An index of 100 means perfect inequality



Who is Most Unequal?

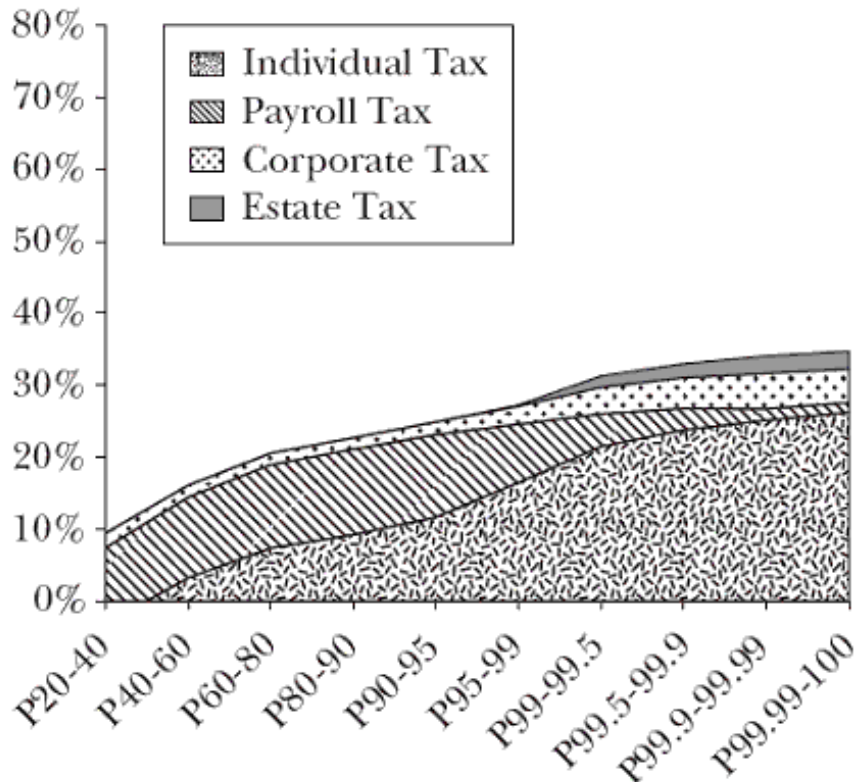
- The Gini Index measures inequality on a scale from 0 (perfectly equal) to 100 (most unequal)



US Tax Rate Trends

Federal Tax Rates in the United States in 2004 and 1960

A. Tax rates in 2004



B. Tax rates in 1960

