AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



EXAM QUESTION PACK

3.1.7.1 THE DISTRIBUTION OF INCOME AND WEALTH

SCORE	PERCENTAGE
/543	%

STEMUP

These questions belong to AQA, not to us.

The examination questions, mark schemes and examiner reports in this pack were written and published by AQA. They are past assessment materials, reproduced here so that students can revise from them.

What we do not own

STEMUP is not affiliated with AQA and does not own, and makes no claim to own, any of the question, mark scheme or examiner report material in this pack. AQA has not endorsed, approved or been involved in the production of it. AQA and the qualification titles used here belong to their respective owners and appear for identification only.

Where to find the originals

AQA publishes its past papers, mark schemes and examiner reports free of charge. Always check the current specification at aqa.org.uk before you revise, because content and wording can change between series.

If you hold the rights to any material in this pack and would like it amended or removed, contact admin@stemup.co.uk and we will act on it.

1. ‘Many ideas in the UK for coping with rising health care costs are imported from other EU countries’ (**The European Union Context Extract F**, lines 1 and 2).

Using the data and your economic knowledge, assess whether the UK Government should encourage greater use of market forces in the provision of health care.

[25 marks]

2. ‘ *The Spirit Level*, a book by Richard Wilkinson and Kate Pickett published in 2009, is subtitled: *Why More Equal Societies Almost Always Do Better*.’

Evaluate the view that the government should rely less on market forces to determine the distribution of income and wealth in the UK and should increase its intervention to make the UK more equal.

[25 marks]

3. A government wishes to make the distribution of **both** income **and** wealth more equal.

Discuss whether the most effective way to achieve these aims is to tax income more progressively.

[25 marks]

4. ‘ *The Spirit Level*, a book by Richard Wilkinson and Kate Pickett published in 2009, is subtitled: *Why More Equal Societies Almost Always Do Better*.’

Explain the causes of inequality in the distribution of income and wealth in the UK.

[15 marks]

5. **THE EUROPEAN UNION CONTEXT**

Extract E: Wage differentials in the UK in 2008

In 2008, the average doctor in general practice earned £105 000 and, while the average earnings of dentists doing NHS work were £89 000, over 700 dentists earned more than the Prime Minister, who earned £190 000. The Lord Chief Justice earned £236 000 and the Director-General of the BBC earned £816 000. The average annual earnings of all UK workers in full-time employment was around £30 000. Someone with a normal full-time working week on the national minimum wage would have earned about £11 000 over the year.

Source: news reports, 2009

6. **The European Union Context Extract E** gives examples of wage differentials.

Explain what is meant by the term ‘wage differentials’ **and** analyse **two** reasons, suggested by economic theory, why wage differentials occur.

[9 marks]

STEMUP.CO.UK

7. ‘Addressing unfairness in the UK tends to focus on policies to redistribute income after it has been earned… On the other hand, much EU policy is aimed at reducing the unequal distribution of income at source…’ (**The European Union Context Extract D**, lines 25 − 28).

Using the data and your economic knowledge, evaluate the view that a fair distribution of income can better be achieved by policies which aim to redistribute income after it is earned rather than by policies which tackle supply-side obstacles in the economy.

[25 marks]

8. **THE EUROPEAN UNION CONTEXT**

Extract D: Policies for fairness

The European Union is one of the richest areas in the world but both absolute poverty and relative poverty exist within the EU. Although unemployment is a major cause of poverty, the working poor, whose wages are at or below the ‘poverty line’, are estimated to number 20 million across the EU.

The EU named 2010 as the ‘European Year for Combating Poverty and Social Exclusion’, but this hardly featured at all in the UK media. However, the concept of fairness is very much on the national agenda. For example, the UK Prime Minister, David Cameron, did at one stage suggest that the earnings of the highest paid public servant should be no more than 20 times that of the lowest. Furthermore, many commentators have suggested that, if such a formula were introduced, the idea could spread to the private sector.
The UK is one of 20 out of 27 EU member states with a minimum wage. Across those 20 countries, minimum wages are between 30% and 50% of average earnings. The European Parliament has floated the idea of an all-EU ‘minimum income’ but this is not expected to be taken up by governments just yet. And how long before there are also serious proposals for a national, or even an all-EU, maximum wage?

Between 1980 and 2005, the distribution of income in the UK became less equal. In 1980, the top 1% of earners received 12% of all income. However, by 2005 the top 1% of earners received 16% of all income, with bonuses in the financial sector pushing this figure nearer to 18%. The trend towards greater income inequality in the UK in recent years has largely been justified by the idea that market forces provide ‘incentives’ for successful businesses and that the spending power of high earners ‘trickles down’ to the rest of society.

Fairness is difficult to define. One view, suggested by the UK’s *Institute for Public Policy Research,* is that fairness involves basic minimum entitlements and equal opportunities, plus an absence of obstacles created by factors such as where an individual is born or where they happen to live. Addressing unfairness in the UK tends to focus on policies to redistribute income after it has been earned: for example, through the tax and benefits system. On the other hand, much EU policy is aimed at reducing the unequal distribution of income at source, through what are called cohesion policies to target supply-side obstacles.

EU policies are, to a large extent, aimed at boosting the employability and earning potential of workers through measures such as skills training and business advice. They work on the ‘supply side’ of the labour market but the demand for labour cannot be ignored. For example, despite receiving significant levels of EU funding, recently Wales lost 900 well-paid, skilled jobs when the German company *Robert Bosch* moved its factory to Hungary, where wages are much lower. Perhaps an all-EU minimum wage would have helped to prevent this.

Source: news reports, 2010

STEMUP.CO.UK

9. Assess the view that wide wage differentials are good for the economy and that governments should therefore play no part in deciding wage rates.

[25 marks]

10. Assess the economic costs **and** benefits of government action which results in the UK becoming a less equal society.

[25 marks]

11. Explain what is meant by 'absolute poverty' (**The Global Context Extract C**, line 4) **and** analyse how access to clean water is 'closely linked to production, income and wealth, both within and between countries' (**The Global Context Extract B**, lines 1 and 2).

[9 marks]

12. **THE EUROPEAN UNION CONTEXT**

Extract F: UK health reforms

Many ideas in the UK for coping with rising health care costs are imported from other EU countries. For example, in 2002, the Labour Government introduced the idea of 'Foundation Trust Hospitals', which had been tried in Spain. These not-for-profit organisations are able to set their own clinical and financial priorities and have greater freedom to borrow money, invest their surpluses, and form public-private partnerships. Meanwhile, in Spain, some doctors were complaining that their newly formed Foundation Hospitals had fewer beds, fewer staff and more complaints from patients than before. Some hospitals were returned to their former status because they were said to be bureaucratic, inefficient and 'cherry-picking', that is choosing the easiest patients to treat.

During 2011 and 2012, the UK Coalition Government legislated for NHS reforms, promoting the idea of an 'internal market' in health provision, with local doctors working in groups to buy hospital services on behalf of their patients. In February 2012, a hospital in East Anglia was the first in the NHS to be taken over by a private company, which hoped to clear the hospital's £45m debts and make it 'profitable' by 'competing' for patients with neighbouring hospitals.

13. 'Government should be concerned about incentives and disincentives to work. They should not be concerned with fairness in the treatment of various income groups.'

Assess the case for and against governments intervening in labour markets to achieve a fairer distribution of income.

[25 marks]

STEMUP.CO.UK

14.

THE GLOBAL CONTEXT

Extract C: A lot of bottle

The global market for bottled water is dominated by a small number of large firms, and demonstrates another of the curiosities of globalisation. A plastic bottle of water contains two of the world's most precious commodities: oil and water. Many millions of people, living in absolute poverty, are in need of clean water, and yet the water bottling industry in the more developed countries transports water from people who have water to other people who already have water. Critics say that, in terms of productive resources, it takes three litres of water and one-fifth of a litre of oil to manufacture one litre of bottled water and transport it to a shop shelf.

In the UK, drinking water is cheap, and if unmetered it is even 'free' in terms of marginal cost to the user. Safe drinking water is available on tap through water mains almost anywhere. Thames Water estimates that a litre of mains water creates 600 times less carbon dioxide than a litre of bottled water. Yet the British public spends over £2 billion each year on bottled water, relying mainly on local councils to dispose of the resulting 3 billion plastic bottles.

15.

A government has a policy of reducing taxes on income while increasing taxes on spending, such as Value Added Tax (VAT).

Distinguish between equity **and** equality and explain the effects of this government policy on both equity **and** equality.

[15 marks]

16.

'…children from poor families are likely to grow into poor adults, and remain poor into old age' (**The Global Context Extract B**, lines 7−8).

Using the data and your economic knowledge, evaluate whether it is better for the UK government to reduce poverty by using policies to improve people's ability to earn higher wages during their working lives, rather than through the provision of state benefits to those who are poor for various reasons.

[25 marks]

STEMUP.CO.UK

17. It has been suggested that the NMW should be increased so that it is the same as the Living Wage.

Using **The National Minimum Wage After 15 Years**, explain the possible effects on individuals and the economy if the government were to adopt this suggestion.

[15 marks]

18. Explain what is meant by 'market failure' (**The Global Context Extract C**, line 13) **and** analyse **two** reasons why markets might fail to provide adequate pensions.

[9 marks]

STEMUP.CO.UK

19. THE GLOBAL CONTEXT

Extract C: Pensions and poverty

A major factor in tackling global poverty is the provision of adequate pensions. According to the think tank, Pensionwatch, four out of five older people around the world have no access to a pension, with many millions living in poverty or working well into their old age. Around 80 countries have some form of state pension which gives a basic income in old age.

An important question is whether individuals should take responsibility for their old age by choosing to contribute to a scheme provided by the state, or an employer, or via the insurance industry. Only a few wealthier countries also have a basic 'universal' state pension, financed from general taxation rather than contributions. These have a cost to the taxpayer but they reduce the social costs of old age poverty.

Statisticians can make long-term predictions of population changes and yet many private and public sector pension schemes are in crisis as countries are faced with ageing populations and rising levels of national debt. This can be seen as government failure, caused by poor forward planning. There has also been some market failure. For instance, due to the selling of inappropriate insurance-based private pension schemes, and a significant fall in the value of pensions being provided by even the better schemes, many consumers have lost trust in the private sector pensions industry.

It could be that many people are simply too poor to be able to afford to save, or it might be that people often prefer current consumption over future consumption. This form of market failure could be tackled by the government imposing a high rate of compulsory pension saving, as in Chile and Singapore. There was a small step in this direction in the UK in 2012 when the government launched 'auto-enrolment', an occupational pension scheme pioneered in Australia and New Zealand where employees are automatically included unless they opt out. While rich countries argue over who should pay for pensions, and by what methods, in poor countries, where pensions are needed the most, they are likely not to exist at all.

Sources: news reports, government statistics, 2013

20. THE GLOBAL CONTEXT

Extract B: Poverty and age

The UN estimates that half the children in the world live in poverty. The 40 poorest countries in the world contain 500 million people who share a total annual income which is less than the total personal wealth of the 40 richest people in the world.

When measuring poverty within countries, economists generally use an indicator of relative poverty. In the UK, government statisticians generally view people as being 'at risk of poverty' if their household disposable income after housing costs is less than 60% of the average. Politicians in the UK often focus on child poverty, because children from poor families are likely to grow into poor adults, and remain poor into old age. In 1999, the then Prime Minister, Tony Blair, promised to eliminate child poverty by 2020. In 2012, the Office for National Statistics (ONS) reported that relative poverty, as measured by the gap between a family's income and the national average, had fallen since 2008. However, this was likely to be because people in the middle had become worse off, rather than the poorest becoming better off. People aged 18 to 24 saw their risk of poverty rise, due to rising unemployment among that age group. However, it is not necessary to be unemployed to be poor. It has been said that some UK government benefits, such as tax credits, subsidise low wages paid by employers to many workers whose jobs are essential but may require few specialist skills. Training schemes and minimum wage legislation are among government policies aimed at reducing the number of 'working poor' in the labour market.

Sources: news reports, government statistics, 2013

21. The National Minimum Wage after 15 years

Extract A: The role of the National Minimum Wage

The purpose of the NMW is to provide a wage floor, in order to protect low-paid workers against exploitation, without causing job losses. Many economists have been wary of statutory minimum wages: unless they raise the price of labour at the bottom of the wage distribution above what it would otherwise be they are pointless; but if they raise it then the fear is that they will curb demand for labour, and curb it to the particular detriment of the least skilled.

However, others have pointed out that labour markets are not perfectly competitive. There are costs and risks for workers who want to change jobs, and some employers enjoy a degree of monopsony power in local labour markets. As a result workers may be paid at levels below the market-clearing rate. The implication is that a statutory wage floor may raise the pay of the lowest earners without adverse employment effects. The challenge is to set the level as high as possible short of causing people to lose jobs.

Source: The Future Path of the National Minimum Wage - Low Pay Commission 2014

STEMUP.CO.UK

22.

The National Minimum Wage after 15 years

Extract E: The National Minimum Wage: silver bullet or poisoned chalice?

Since its introduction in 1999, the NMW has increased by 75%, whilst average earnings have risen by 61% and the Retail Price Index by 53%. A new report, published by the Institute of Economic Affairs, argues that the NMW should be abolished for apprentices and under 18-year-olds in the UK to tackle persistently high youth unemployment. The rate for 16 and 17 year olds is due to rise to £3.79 per hour in October 2014 and to £2.73 per hour for apprentices. The authors of the report also believe that setting a single NMW is likely to have adverse effects on private sector employment in the regions. In Wales, for example, the NMW is 70% of median hourly earnings in the private sector, compared to just 42% in London. The report recommends that the minimum wage should be regionalised. When determining the minimum wage for each region, differences in productivity and economic conditions should be taken into consideration.

Source: News Reports accessed May 2104

23.

The National Minimum Wage after 15 years

Extract D: Calls for employers to commit to paying the Living Wage as the pay gap widens

The TUC, the Archbishop of Canterbury and Boris Johnson, the Mayor of London, are just a few of those who have called on employers to pay their workers a living wage. The Living Wage is defined as 'the wage that can meet the basic needs to maintain a safe, decent standard of living within the community'. The Living Wage differs from the minimum wage in that the latter is set by law and may fail to provide people with enough income to have a reasonable quality of life. It has been claimed that five million people are paid less than the Living Wage, which is estimated at £8.80 an hour in London and £7.65 elsewhere.

Proponents argue that paying the Living Wage means workers can live with dignity and not just exist. By paying the Living Wage, employers can lift their employees out of poverty, debt, and illness, which will improve family life. Employers benefit because it is easier to recruit and retain staff, productivity increases, and there is a reduction in sickness and absenteeism. Government spending on welfare is also reduced. Everyone is a winner.

Source: News Reports accessed May 2104

24.

The National Minimum Wage after 15 years

Extract B: The National Minimum Wage to rise to £6.50 in October 2014

Will a rise in the National Minimum Wage (NMW) damage the competitiveness of the UK economy? Representatives of businesses in the UK have claimed that the recently announced 3% increase in the National Minimum Wage is 'unwelcome in today's economic climate'. Critics of the increase maintain that 'it is essential that businesses remain competitive and that the above inflation increase in the NMW will add significantly to business costs'. Yet competitiveness is not just about wages, it also, for example, depends on productivity, the exchange rate and innovation.

Source: News Reports accessed May 2104

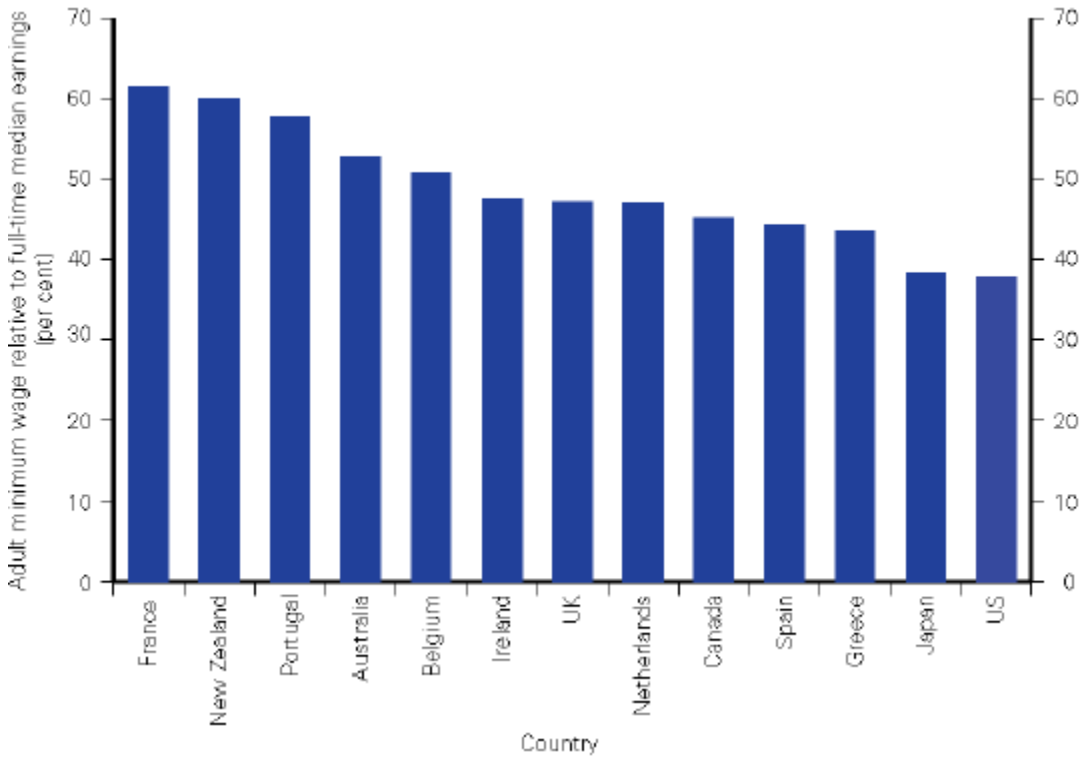
25. **The National Minimum Wage after 15 years**

Extract C: International comparison of adult minimum wages by country, December 2013

Country	**Minimum wage in UK £s, using purchasing power parity exchange rates**
Australia	7.79
France	7.77
Belgium	7.02
Netherlands	6.97
Ireland	6.80
New Zealand	6.35
UK	6.31
Canada	5.89
USA	5.31
Japan	4.80
Spain	3.48
Greece	3.40
Portugal	2.91

Source: Extracted from National Minimum Wage – Low Pay Commission 2014

Adult minimum wages relative to full-time median earnings, by country, 2012



Source: The Future Path of the National Minimum Wage - Low Pay Commission 2014

Some countries, such as China and India, do not have a single national minimum wage. In China, each province sets its own minimum wage to reflect local conditions. In November the hourly rate in Beijing was equivalent to approximately £1.74, whereas in Hunan it was around £0.93.

International comparisons of productivity, final estimates for 2012

Current price GDP per hour worked

UK = 100

Canada	105
France	132
Germany	131
Italy	111
Japan	89
UK	100
USA	135
G7 average	120

Source: ONS 20 February 2014

STEMUP.CO.UK

1. In an economy, over the last decade, each of the top five decile groups has experienced a fall in their share of total income. In contrast, the bottom five decile groups have experienced a substantial increase in their share of total income.

It can be concluded that, over this period, the distribution of income is most likely to have become

A more equal. ⬭

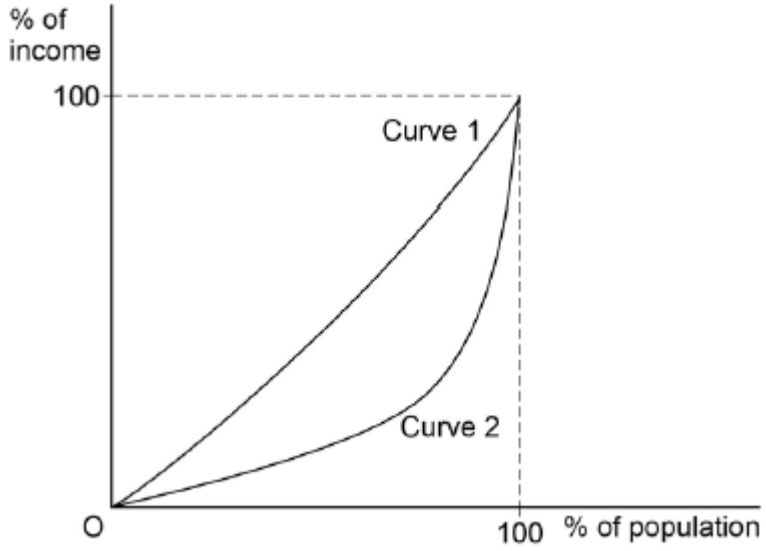
B more equal but less equitable. ⬭

C more equitable. ⬭

D more equitable but less equal. ⬭

[1 mark]

2. The two Lorenz curves below represent the distribution of disposable income for the same economy in two time periods.



STEMUP.CO.UK

Over time the shift from the Curve 1 to Curve 2 curve is most likely to have been caused by which one of the following?

A Reduced welfare expenditure and reduced taxes on higher earners ⬭

B Increased welfare expenditure and increased taxes on higher earners ⬭

C Increased tax allowances for low earners and increased welfare expenditure ⬭

D Lower taxes on expenditure with reduced taxes on low earners ⬭

[1 mark]

3. Taking into account the news report, **Brazil: The Hot 'BRIC' Extract D** and the original evidence, do you recommend that the company should invest in Brazil? Justify your recommendation.

[25 marks]

4. The table below shows the Gini coefficient of income for two countries.

Country	Gini coefficient
X	0.4
Y	0.6

From the table it can be inferred that

A the distribution of income is more equal in country X. ⬭

B the distribution of wealth is more equal in country Y. ⬭

C 40% of the population in country X have more than the median income. ⬭

D 60% of the population in country Y have more than the mean income. ⬭

[1 mark]

5. Many people were surprised when UK unemployment fell during 2013. The government's policy of deficit reduction was expected to prevent significant falls in unemployment and some called for the government to reverse its policy of planned cuts in expenditure.

Explain why low unemployment is a key objective of economic policy for the UK and most other governments.

[15 marks]

STEMUP.CO.UK

6. Over the past 35 years, successive governments have reduced taxes on income whilst increasing taxes on spending, such as excise duties and Value Added Tax (VAT).

Assess the economic costs **and** benefits of government action which results in greater inequality in the distribution of income and wealth in the UK.

[25 marks]

7. Over the past 35 years, successive governments have reduced taxes on income whilst increasing taxes on spending, such as excise duties and Value Added Tax (VAT).

Distinguish between equity **and** equality and explain the effects of this government policy on the distribution of income.

[15 marks]

8. It is generally accepted that we need to adopt new ways of charging for the use of our roads. This is partly because of worsening congestion, but is also due to the reduction in revenue generated from taxes on fuels as a result of more fuel-efficient vehicles.

Assess the view that a system of road-pricing is the best way to tackle the problem of worsening traffic congestion in the UK.

[25 marks]

9. Which one of the following is used to measure inequality in the distribution of income?

A The size of the employed labour force. ⬭

B The value of the Gini coefficient. ⬭

C The size of the income multiplier. ⬭

D The marginal rate of income tax. ⬭

[1 mark]

10. In recent years, growth rates in the UK have been low and unemployment has risen. For example, in 2012 output was still below its peak of 2008 and unemployment had risen from 6.4% from 7.8%.

Explain why economic growth is a key objective of UK Government economic policy.

[15 marks]

STEMUP.CO.UK

11. The information below shows the changes in key economic indicators for a country over a period of one year.

Money GDP	Rate of inflation	Population increase	Gini coefficient
+6%	+4%	+1%	–8%

Which one of the following can be concluded from the data?

A External costs generated from economic activity have reduced the quality of life ⬭

B Real GDP per capita has fallen ⬭

C The distribution of income has become more unequal ⬭

D The standard of living of typical residents in the country has probably improved ⬭

[1 mark]

12. Apple sells iPhones and iPads at considerably lower prices in the USA than in the UK market, but sources the products from the same factories in the Far East.

Discuss the view that price discrimination only benefits suppliers, such as Apple.

[25 marks]

13. **Inequality Extract E** (lines 6−7) states that 'growing inequality would create incentives, kick-start enterprise, boost growth and is good for us all'.

Using the data in the extracts and your economic knowledge, assess the view that inequality is 'good for us all.'

[25 marks]

14. **Inequality Extract F** (lines 9−10) states that 'concentrating income in fewer and fewer hands eventually leads to bubble economies in which the prices of assets, such as houses and shares, rise continuously'.

With the help of a diagram, explain how growing inequality might lead to a persistent rise in the price of houses.

[9 marks]

STEMUP.CO.UK

15.

Inequality

Extract F: Against inequality

The main outcome of the post-1980 experiment in neo-liberal (market) economics has been an economy that is much more divided and unhealthy, both of which are closely related. There are three powerful reasons why the global financial crisis of 2008 and 2009 had its roots in excessive concentrations of income and wealth.

First, above a certain limit of inequality, economies develop a natural tendency to deflation. In the UK and US, by cutting the purchasing power to buy the extra output being produced, the long wage squeeze has created consumer societies without enough consumers. The solution has been to allow an unsustainable increase in private debt to fill the gap.

Second, concentrating income in fewer and fewer hands eventually leads to bubble economies in which the prices of assets, such as houses and shares, rise continuously until the 'bubbles' eventually burst. From the early 1990s, the growing inequality created a global mix of increasing company profits, excessive bank lending and rapidly growing personal wealth, all of which contributed to the bubbles in property and share prices. This eventually brought the global economy to its knees.

Finally, excessive concentrations of wealth create dangerous concentrations of economic power. Corporate lobby groups, which promote the interests of the financial sector, are able to promote measures such as weak financial regulation by the state and lower taxes on the wealthy.

Source: Copyright Guardian News & Media Ltd 2011

16.

Explain how the data in **Inequality Extract D** show that taxes and benefits have been successful in reducing inequalities in household income in the UK.

[4 marks]

17.

Inequality

Extract E: In favour of inequality

The way in which society's resources are distributed has long been of major concern to economists, directly affecting as it does the level of social welfare. Changes in the size and distribution of national output raise important questions of efficiency and also involve basic issues of equality. However, what is equitable is a matter of considerable debate amongst economists of different political persuasions.

It has been argued by the supporters of free-market capitalism that growing inequality would create incentives, kick-start enterprise, boost growth and is good for us all. Free market economists would argue that justice automatically arises from the interaction of demand and supply and the existence of competitive markets. In such a scenario, each factor receives what it is worth in terms of the value of its marginal revenue product. Disparities in income and wealth are justified by such factors as greater levels of innate or acquired skills which enable some factors to be more productive than others and earn a greater amount. Differences in the distribution of income and wealth are therefore viewed as inevitable and also desirable in that they provide the necessary incentives for individuals to study, train, supply their factor services and set up new businesses. These differences help the smooth operation of the price system and lead to an efficient resource allocation.

Moreover, an unequal distribution of income is seen as necessary to ensure economic efficiency and a faster growth rate – by making the rich richer, the size of the national cake, that is real GDP, will grow, and the benefits will trickle down to the less well off.

Source: News reports, November 2013

STEMUP.CO.UK

18. Which one of the following values for the Gini coefficient shows the greatest inequality?

A −0.5 ○

B 0 ○

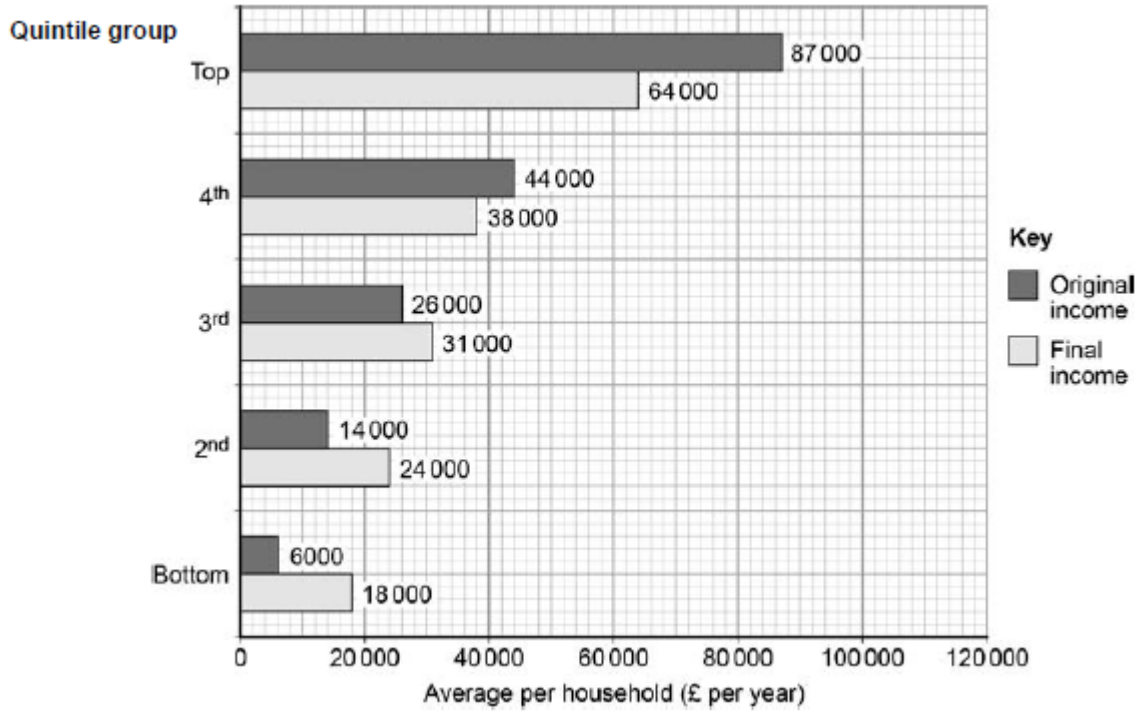
C 0.5 ○

D 1 ○

[1 mark]

19. **Inequality**

Extract D: The effects of taxes and benefits in the UK on household income by quintile groups, 2011−2012



Source: Office for National Statistics licensed under the Open Government Licence v. 1.0.

20. Attempts by governments to equalise incomes are well-intentioned but counter-productive. They destroy incentives for people to lift themselves out of poverty.

To what extent can the problem of poverty in the UK be solved through the operation of market forces? Justify your answer.

[25 marks]

STEMUP.CO.UK

21. The Resolution Foundation estimates that 1% of adults, about 488 000 people, own 14% of the UK's assets – worth about £11 trillion. At the other end of the scale, 15% of adults, about 7.3 million people, either own no assets at all, or are in debt. Meanwhile, income is also unequally distributed, but not to the same extent as wealth.

Explain how the Lorenz curve and Gini coefficient may be used to illustrate increasing income inequality in a country.

[15 marks]

22. Attempts by governments to equalise incomes are well-intentioned but counter-productive. They destroy incentives for people to lift themselves out of poverty.

Explain the main causes of poverty in the UK.

[15 marks]

23. The Resolution Foundation estimates that 1% of adults, about 488 000 people, own 14% of the UK's assets – worth about £11 trillion. At the other end of the scale, 15% of adults, about 7.3 million people, either own no assets at all, or are in debt. Meanwhile, income is also unequally distributed, but not to the same extent as wealth.

Assess the view that, in the UK, the consequences of wealth inequality are more damaging than the consequences of income inequality.

[25 marks]

24. All other things being equal, which one of the following would be most likely to result in a reduction in inequality in the distribution of income in the UK? An increase in the

A amount of government tax revenue. ⬭

B average standard of living. ⬭

C level of median income. ⬭

D share of income of the lowest quintile. ⬭

[1 mark]

STEMUP.CO.UK

25. The table below shows the value of the Gini coefficient for a country between 2012 and 2016. Over the five-year period, the government has used progressive taxation to change the distribution of income.

Year	Gini coefficient
2012	0.60
2013	0.55
2014	0.50
2015	0.45
2016	0.40

Based on the above data, which one of the following is a positive statement?

A A progressive tax system is the fairest way of correcting income inequality. ⬭

B Between 2012 and 2016 the distribution of income in the country became more equal. ⬭

C The Gini coefficient is the best way of measuring changes in the distribution of income. ⬭

D The government should continue to tax the rich to improve the distribution of income. ⬭

[1 mark]

STEMUP.CO.UK