

*Edexcel A-level Economics exam practice answers*

18: Poverty and inequality

(a) KN: 2 marks; AP: 2 marks; AN: 1 mark

KN:

- Gini coefficient is a measure of inequality
- Calculated as area between 45° line and Lorenz curve divided by whole area under 45° line
- The Gini coefficient is calculated using the following formula:
$$G = A / A + B$$
- A represents the area between the diagonal line and the Lorenz curve and B represents the area under the Lorenz curve.

AP:

- Examples of Gini coefficients from the chart

AN:

- The higher the value, the greater the degree of inequality. Absolute equality is represented by the 45° line where the Gini coefficient would be zero. A value of 1 would represent representing absolute inequality (i.e. the Lorenz curve would lie along the horizontal and vertical axes). [\[5\]](#)

(b) KN: 2 marks; AP: 2 marks; AN: 2 mark Evaluation: 2 marks

KN:

- Correctly labelled Lorenz curve diagram

AP:

- Showing Peru's Lorenz curve further away from the 45° line than that of Norway

AN:

- Understanding that there is greater inequality in Peru than in Norway

Evaluation:

- Difficulty of securing an accurate measure of inequality and that it can change over time

[\[8\]](#)

(c) KAA: 8 marks, Evaluation: 4 marks

KAA:

Possible causes include:

- larger informal economy in Peru



- lower levels of education in Peru than in the Norway
- higher wages in the Norway negotiated by collective agreements
- tax system more progressive in the Norway

Evaluation:

- Inequality now increasing in some developed economies
- As Peru becomes more developed it is likely that social welfare will improve and inequality will decline
- Gini coefficient in Peru fell from 0.53 in 1999 to 0.43 in 2018.

(12)

- (d) **KAA:** 16 marks
Evaluation: 9 marks

KAA:

Measures include:

- Make tax system more progressive by increasing income tax rates
- Increase in inheritance tax rates
- Introduce/increase wealth tax on assets
- Reduce taxes which have a regressive effect
- Increase in means-tested benefits
- Increase in national minimum (living) wage
- Improvements in education and training

Evaluation:

- Higher tax rates could reduce incentives
- Increase in tax avoidance/evasion, resulting in lower tax revenues (Laffer curve), so reducing ability of government to redistribute incomes
- Education and training may not be well targeted to the poor

(25)