Basic Issues in Economics

• **Production** – how much is produced, and what type of things?

• **Distribution** – who gets the output?
## Production

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP per person 2010 ($)</th>
<th>Hours Market Employment per Adult 2000</th>
<th>Marginal Tax Rate 2000 (%)</th>
<th>Social Spending (% of GNP) 1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>46,860</td>
<td>1,364</td>
<td>34</td>
<td>19</td>
</tr>
<tr>
<td>Germany</td>
<td>36,081</td>
<td>1,010</td>
<td>65</td>
<td>29</td>
</tr>
<tr>
<td>France</td>
<td>33,910</td>
<td>1,003</td>
<td>56</td>
<td>33</td>
</tr>
<tr>
<td>Sweden</td>
<td>38,204</td>
<td>1,189</td>
<td>49</td>
<td>40</td>
</tr>
</tbody>
</table>
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
Source: http://www.stanford.edu/group/scs/pcgi-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

Dolan, Microeconomics 4e, Ch. 16
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