

Assignment 5

1. Suppose an economy consists of 4 persons with ranked income as [10, 20, 30, 40]

- i. What is the cumulative income for this economy?
- ii. Draw a Lorenz curve for this economy
- iii. Calculate the Gini coefficient for this economy
- iv. Find $IR_{20/20}$

2. Economist B analyzed two economies with Lorenz curves as the following:

| Country J | Country M |
|----------------------------------|----------------------------------|
| Poorest 10% shares 2% of income | Poorest 10% shares 7% of income |
| Bottom 50% shares 30% of income | Bottom 50% shares 30% of income |
| Richest 10% shares 24% of income | Richest 10% shares 27% of income |

She concluded that, since the difference in share of the richest to the poorest is higher in Country J, the Lorenz curve demonstrates that Country J must be more unequal than Country M. Is she right? Why or why not? Briefly answer within half a page.

3. **Something for you to ponder over.** What would you imagine as the characteristics the “*optimal*” redistribution policy, i.e. policy that balances both growth and equality? Be practical and realistic. Write them down a paragraph or two describing your vision. Later in class, we’ll find time to discuss some of your ideas.