what questions can you expect?
economic issues: dISTRIBUTION OF WEALTH & INCOME

## HSC 2017

|  |  |
| --- | --- |
|  | 23 (b) Explain TWO ways in which taxation can be used to change the Gini coefficient from 0.5 to 0.2. (4 marks) |

**Sample answer:**

Decreased income inequality can be achieved by increasing the top marginal rate of income tax which ensures that those on higher incomes pay relatively more tax than those on lower incomes. Alternatively, decreasing the rate of an indirect tax such as the goods and services tax will improve income equality as those on lower incomes tend to spend more and hence pay a greater proportion of their income in tax.

**Answers could include:**

• Increasing capital gains (or wealth) tax

• Increasing the tax free threshold

• Progressive/regressive taxes

• Make income tax system more progressive (lower tax rates on lower incomes)

 • Company tax reduction that creates more employment

• Company tax increase that reduces profit distributions

• Reform of tax system to encourage people to move off welfare (or part-time work) into (full-time) employment.

|  |  |
| --- | --- |
|  | 23 (b) Explain TWO ways in which taxation can be used to change the Gini coefficient from 0.5 to 0.2. (4 marks) |

**Sample answer:**

Two major sources of wealth are property and superannuation. Younger workers typically do not have the time to save sufficient funds to purchase property and so are forced to rent; nor do they have the opportunity to work long enough to accumulate superannuation. Women receive lower incomes on average than men and may also take significant times out of the workforce to have children. This impacts negatively on their ability to own property in their own right and also to accumulate superannuation.

**Answers could include:**

**•** Government policies that might not do enough to address income inequality driven by age/gender differences … childcare policies

• Family separation/structure

• Workplace discrimination on the basis of age/gender.

## HSC 2018

|  |  |
| --- | --- |
|  | *8*8 Country A’s Lorenz curve is closer to the line of perfect equality than Country B’s Lorenz curve. All other things being equal, which of the following is true? A. Country A has a larger Gini coefficient than country B. B. Country B has a more equitable distribution of income than country A. C. Country A’s Lorenz curve will move closer to country B’s Lorenz curve if country A’s top marginal income tax rate is decreased.D. Country B’s Lorenz curve will move closer to country A’s Lorenz curve if country B’s top marginal income tax rate is decreased.  |

## EBE TRIAL 2019

|  |  |
| --- | --- |
|  | 25 Assess the extent of inequality in the distribution of income and wealth in Australia.20 marks |

Answers could include:

• “Assess the extent….” - makes a judgement as to the significance of the inequality in the distribution of income and wealth in the Australian economy.

• Income:

o Main source of household income as a percentage of GDP is wages, followed by welfare.

o Gini coefficient has remained around 0.3 (OECD average).

o Increased income inequality in the mining boom due to higher returns on investments for high-income earners.

o Fall in income inequality since the GFC due to lower returns to capital.

o Transfer payments.

o Progressive and regressive taxes.

• Wealth:

o Main sources of wealth are superannuation and property.

o Gini coefficient has grown over the past two decades.

o Increase in wealth inequality driven by property prices, and investment in commodity and financial industries.

o Australia ranks in the bottom-third of OECD countries for wealth inequality.

• Lorenz curve

• Economic and social benefits of inequality

o Incentive for further education.

o Incentive for labour productivity.

o Incentive for entrepreneurship.

o Improves labour mobility.

o Creates savings for investment.

• Economic and social costs of inequality

o Lower consumption and growth.

o Lower utility.

o Welfare costs.

o Social divisions.

o Poverty trap.

## HSC 2019

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 11 The following diagram shows the level of income in an economy over two years.What changes in the top marginal rate of tax and the goods and services tax (GST) would have caused this shift in the Lorenz curve from Year 1 to Year 2?

|  |  |
| --- | --- |
| Top marginal rate of tax | Goods and services tax (GST) |
| Increase | Increase |
| Increase | Decrease |
| Decrease | Increase |
| Decrease | Decrease |

 |



|  |  |
| --- | --- |
|  | **Question 27** Explain the causes and effects of unequal distribution of income and wealth in Australia.(20 marks) |

***Answers could include:***

• Definition of distribution of income and wealth

• Measuring of income and wealth

• Causes of inequality (eg gender, age, policies)

* + 1. Sources of income and wealth (and variation within them)
		2. Gender
		3. Age
		4. Education
		5. Occupation
		6. Family/household structure
		7. Fiscal policy – GST, marginal rates of tax, social welfare
		8. Monetary policy – redistribution effect
		9. Microeconomic/labour market – enterprise bargaining, superannuation
		10. Effect of income on wealth

• Benefits of Inequality

* + 1. Incentive effects – working harder/longer, acquiring skills, risk-taking
		2. Geographic and occupational mobility
		3. Accumulates savings (could boost investment leading to economic growth)

• Costs of Inequality

* + 1. Lower utility in lower income groups (and on average)
		2. Higher government spending due to welfare spending
		3. Increased tax burden
		4. Social division
		5. Relative poverty
		6. Working poor
		7. Poverty traps (marginalisation of labour)
		8. Inequality of opportunity
		9. Possible lower APC as rich tend to spend less (could reduce economic growth).

## EBE TRIAL 2020

|  |  |
| --- | --- |
|  | 12 The table shows data for a hypothetical country.Which of the following describes the change between Year 1 and Year 2?A. Prices rose and income inequality increasedB. Prices rose and income inequality decreasedC. Prices fell and income inequality increasedD. Prices fell and income inequality decreased |

|  |  |  |
| --- | --- | --- |
| *Year* | *Inflation* | *Gini Coefficient* |
| 1 | 4% | 0.32 |
| 2 | 1% | 0.31 |

## HSC 2020

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 21 (a) The table shows economic information for a hypothetical economy.

|  |  |  |
| --- | --- | --- |
| *Year* | *Gini coefficient* | *Human development index* |
| 1 | 0.87 | 0.35 |
| 2 | 0.74 | 0.36 |

With reference to the given data, outline ONE possible reason for the change in the distribution of income from Year 1 to Year 2 for this economy.**2 marks** |

***Sample answer:***

The Gini coefficient has improved from Year 1 to Year 2 possibly due to decreases in personal income taxation aimed at lower income earners.

***Answers could include:***

* Changes in income taxation policies
* Transfer payment policies
* Superannuation policies
* Investment in education and training.