

Test 4

* Chapter 22 - all except 22-2a]

* Chapter 21 - budget constraint]

all parts 21-1 - indiff curves
21-3 cons optimum

* Chapter 20 - 20-1 } skip
20-2 } 20-3

Chapter 14 - entry/exit.

Chapter 20 - Inequality

- behavioral economics
- are we fair?

- trust game → recipient passes
back more than they got

- ultimatum game

person A - endowment of \$

- eg \$1

pass some to B / accepts A+B
get \$

- rejects A+B get
\$0

selfishness predicts A offer
minimal amount

B accepts because > 0
empirically \rightarrow observe A offers
40%

- \$100 endowment to A
mean $\approx 40\%$

B does not what A's endowment is
mean $\approx 40\%$

refute hypothesis giving is due
to fear of rejection

- fairness is innate

Inequality - persist?

→ start with social welfare function

$$W = W(u_1, u_2, \dots, u_n)$$

~ u_1 - person 1's utility

can't compare u_1 with u_{10}

say $u_1 > u_{10}$ or $u_1 < u_{10}$

Bentham - greatest good.

$$\max W \quad W = \sum_{i=1}^n U_i \quad \text{Summation of utility}$$

- distribution doesn't matter

max total. - GDP / population

max size of-pie.

- measure well off by looking at poverty rate
- ↳ % of population below poverty line
- ↳ X is poverty line
- use as criterion for eligibility for programs
 - SNAP - "food stamps"
 - Affordable Care Act
 - subsidy on insurance

John Rawls

$$W = W \{ \min U_i \}$$

improve U of least well off then

$W \uparrow$ for all.

- limit $U_i = U_j, \forall i, j$

obvious loss of incentives

- but we use poverty rate to
compare across countries, states,
& over time

measure poverty rate - absolute
standard

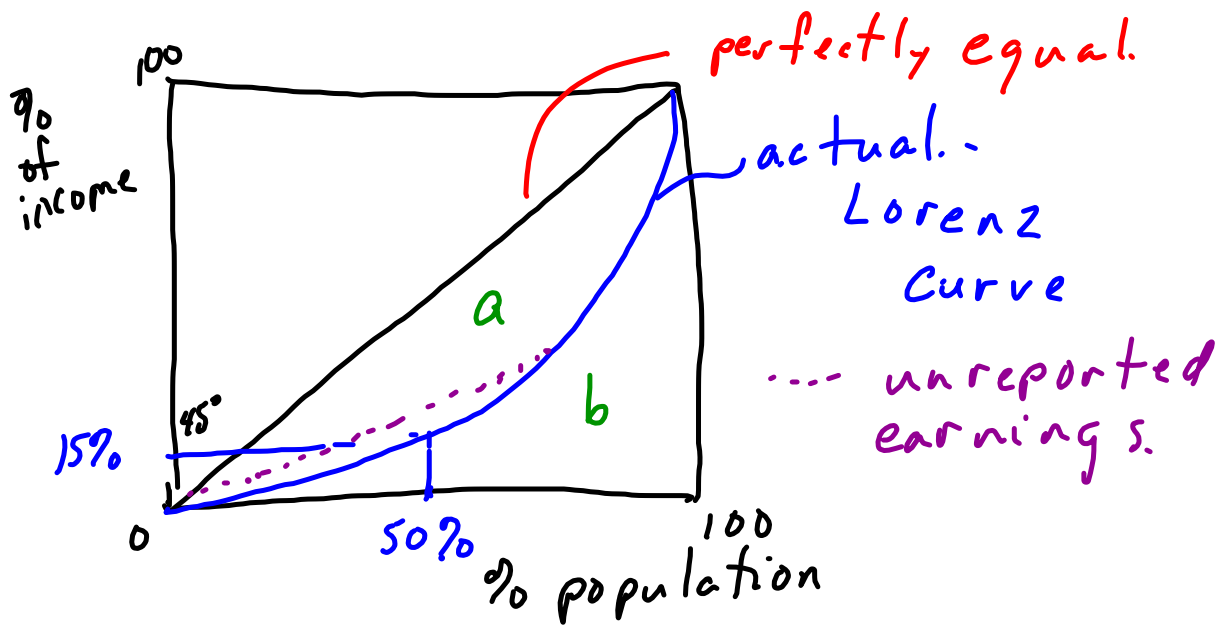
or look at distribution - focus on

bottom deciles (10)

quintiles (5)

what fraction of total income
earned by bottom quintile.

(lowest 20% households)



$$\text{Gini Coefficient} = \frac{a}{a+b} \quad 0 < G < 1$$

if $a=0$ $G=0$ perfect equality
 $b=0$ $G=1$ " inequality

- compare G across jurisdictions
but not actual "best value"
so not target G .
- information - use it to try to
explain - civil unrest
 - consume confidence
 - growth of economy

Income vs Wealth ?

re poverty or inequality
-transitory or permanent. ?
upward mobility.

[Chetty]
[Saez.] probability of moving
bottom quintile to top
in US is $\frac{1}{2}$ probability in
Canada
- implies permanent poverty.

→ Raj Chetty Emanuel Saez

measuring income. ?

[- earnings from job W2
1099.] IRS
[- interest / dividends 1099 int.]

easy

[- non-cash earnings -
- or non-matched (no paperwork)
earnings.]

{ no record.
- not included in inequality
measures

- payment in-kind.
 - company car
 - " house
 - " food (entertain")
 - " club membership
- problem → labor mobility
 - replace all benefits
 - immediately
 - eg health insurance. *

Non cash income

- ↳ owner occupied housing
 - imputed rent - increase in household purchasing power
- if renting a house → pay monthly rent
- own house → pay no rent
- as if - earning rent.