

Inequality & Redist. IV III
 Chapters 11, 12, & 13

$$Y = C + I + G + (X - M)$$

- C - cons.
- I - invest \equiv Savings
- G - gov't
- X - exports
- M - imports
- Y - GDP

	% of GDP	US	Can
1961-70	64.8%		58.8
1981-90	64.6%		54.9
2001-10	70.0%		56.4

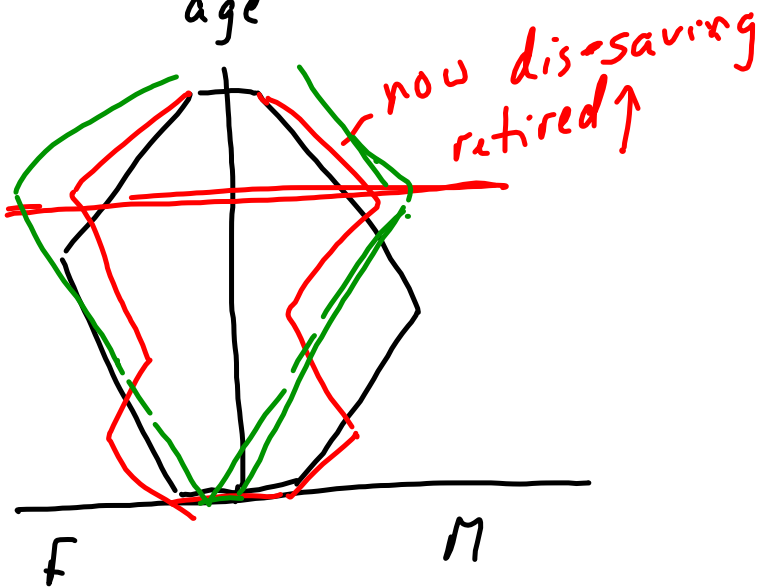
↓
 - housing bubble
 mortgage refinance
 bubble

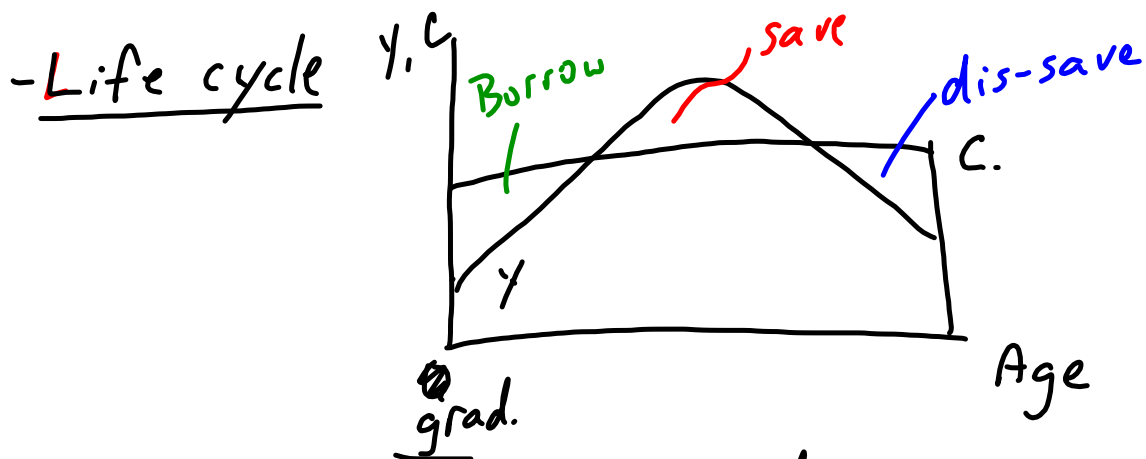
= US cons → international growth

Cons functions

$C = \beta_0 + \beta_1 Y$ $\beta_1 = \text{Marginal Propensity to Consume}$

- demographics
 - WWII boom - 1946 - 1964
 - 1980 - 2000 -





- Permanent Income - Friedman

$$C = \beta_0 + \beta_1 Y + \beta_2 (Y^e) - \text{transitory income shock}$$

- lag response to income change

- Smoothing

- why save? - consumption smoothing
- precautionary -

MPC vary with Y ?
 $MPC \propto 1/Y$ } - greater concentration
 more consumption
 fluctuates when shock

Income Distribution

Functional Shares

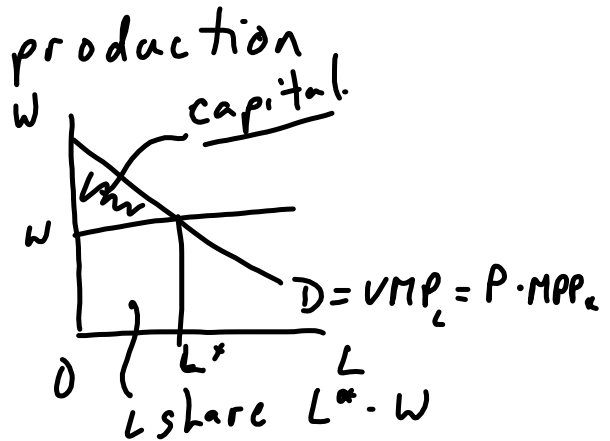
L & K - factors of production

$$Y_H = W \cdot L_H + r \cdot K_H$$

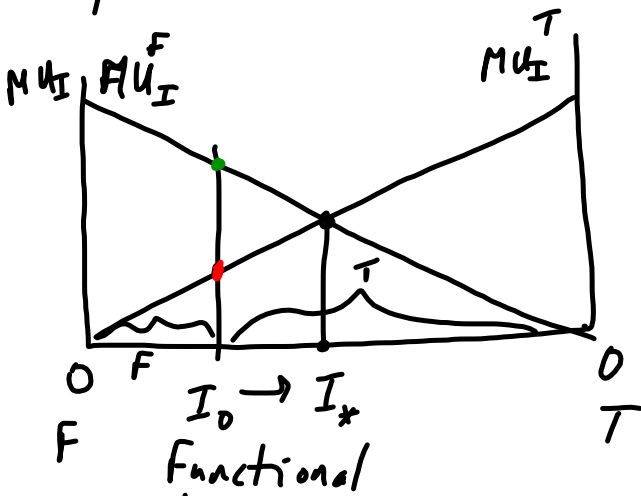
\downarrow \downarrow
 givens givens

$L_H \rightarrow$ human capital
 - ability

$K_H \rightarrow$ inheritance
 - skills
 & savings



Why redistribute? Ch 12 Fig 2



Functional shares
Transfer from T ($MU_I^T < MU_I^F$)

Ignores - Labor supply decision

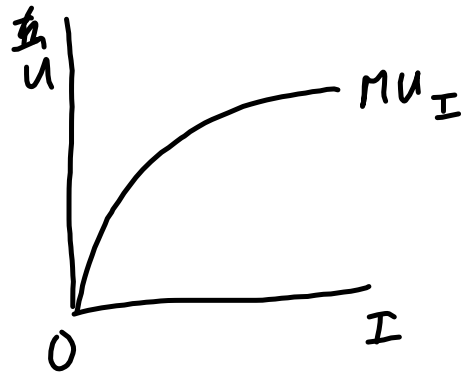
$I_0 - I_*$ - 20% \downarrow I^T

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

Bentham & Bergson

$$W = \sum_{i=1}^n u_i$$

Diminishing marginal utility



Hochman + Rodgers

$U_i = U_i(C_i, C_j)$ - interdependent utility
why charity?

i - give up
income to
make j better
off

- ultimatum game -
Person A get \$10
offer share to B
- if B accepts - each get paid
B rejects - each gets 0
A offer \$1 keep \$9
modal offers \$4 - 5

Measuring inequality

- Poverty rate - % households below
 size 2 → 8 poverty line

- whole population

