EC 151 Homework II
Inequality
Due September 30th in class

1) This exercise explores the relationship between inequality and growth. The data for this lab is in an Excel spreadsheet on my web page.

a. Describe the distribution of inequality across countries. Using the most recent data, calculate the average Gini coefficient for all the countries in your data. Sort your data by the Gini coefficient. Do countries with above average Gini coefficients have above average income per capita? If the Kuznets hypothesis were correct, what would you expect to find?

b. Make a scatter plot of the relationship between secondary school enrollment rates and the Gini coefficient for countries with per capita incomes below the average and one for countries with per capita income above the average. What relationship do you see? Why might it exist? How might this relationship explain a link between inequality and long-run growth?

c. Make a scatter plot of the relationship between investment rates and the Gini coefficient for countries with per capita incomes below the average and one for countries with per capita income above the average. What relationship do you see? Why might it exist? How might this relationship explain a link between inequality and long-run growth?

d. How could greater income inequality affect tax rates? How would higher tax rates affect growth in the long run? Make a scatter plot of the relationship between inequality and highest marginal tax rates. Does this graph support your theory?

e. Using your results from questions one through four, discuss potential mechanisms for income inequality to affect growth of per capita income. Comment on any policy implications of your findings.

2) (Textbook) Chapter 6, question 3 a,d
Just give me the x,y coordinates for each of the two Lorenz Curves. You don't have to actually draw them.

3) (Textbook) Chapter 7, question 7