ECONOMIC STATISTICS

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Module 4	Subnational Statistics and Measuring Economic Inequality
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Topic	Measuring Economic Inequality

MEASURING ECONOMIC INEQUALITY

What is economic inequality and why do we measure it ?

Why are there many measures of inequality ?

How do I decide which measure of inequality to use?

Are all inequality measures reliable?

INEQUALITY

is an indicator that describes how unequally distributed a given resource is within a population.

ECONOMIC INEQUALITY

is an indicator that focus on how an economic resources (such as income or wealth) is spread among the population.

what do these inequality indicators really mean?
How can a single number describe to us the relative living conditions of tens of millions of people?

Conclusion: Inequality is a complex concept

MEASURING INCOME TO MEASURE INCOME INEQUALITY

Income is, broadly defined, the flow of financial resources people receive. We need to separate :

- people who are working
- people who are not working
- people pay taxes on their income
- people receive benefits

Conclusion: measure of the disposable income – how much money people have available to spend.

Take account different needs of household with different sizes -

EQUIVALISATION

is the process by which we adjust for the effect of household size and composition on living standards. This reflects the fact that households with more people require a higher level of income to achieve the same standard of living as a household with fewer people in it.

It adjusts income based on the number of people in a household, using a standard scale.
Equivalisation attaches a weight to each member of the household, according to a common scale (modified OECD scale).

Conclusion: equivalised income – you simply divide the income the household receives by the weighting of the household.

Measuring income inequality using the Gini coefficient

This is the most commonly used statistical measure in order to measure income inequality –

The Gini coefficient varies between 0 and 1 (or between 0% and 100% if expressed as a percentage), with a higher figure representing more inequality.

To calculate the Gini coefficient, we arrange the population in ascending order of income.

How it's done: https://measuringtheeconomy.uk/

The relationship between income, consumption and wealth

Income : The flow of additional economic resources accruing over a given period. For a typical household, this may include earnings and government benefits; for other households, this may include profits from self-employment, dividends or interest on savings.

Consumption: The value of the set of goods and services that a household actually enjoys over a given period, for example, spending on food, recreational activities and clothes.

Wealth:The stock of economic resources held at a point in time. It can be measured gross—ignoring any debts that need to be repaid—or net—after subtracting debts that will have to be repaid.

In each period of life, people have a stock of wealth and they receive an additional flow of income.

In each period, they consume some amount of goods and services.

If they choose to consume less than their income, the remainder becomes potential consumption in future periods—it adds to their net wealth—and vice versa, if consumption exceeds income.

Conclusion: the “permanent” income (or lifetime income)

How it works? https://measuringtheeconomy.uk/

Wealth inequality and life stage

Even more so than with income, it is important to understand the systematic relationship between wealth and age when thinking about inequality across the whole population (i.e. people of different ages).

Conclusion: The age-related component is very large as we consider different wealth inequality

How it works? https://measuringtheeconomy.uk/