

* *Teacher's version P.51-55 (2.2: The Lorenz Curve - Activity 2)*

Teaching Materials 2 (TM 2)

Calculate the cumulative percentage of income earned by different income groups in the following cases. Then discuss the change of the income and the shift of the Lorenz Curve of those cases. Put your answers in Table 1.

- A. \$2,000 of income of the highest-income group is transferred to the lowest-income group.
- B. Every household earns 10% more.
- C. All households have an additional annual income of \$2000.
- D. All households have to pay a lump sum annual tax of \$1000.

Table 1

Income group	Total annual income		A Income transfer from the highest -income groups		B 10% additional income		C \$2000 additional income		D Lump sum tax of \$1000	
	Income earned (\$)	* (%)	Income earned (\$)	* (%)	Income earned (\$)	* (%)	Income earned (\$)	* (%)	Income earned (\$)	* (%)
Lowest 20%	2 000		4 000		2 200		4 000		1 000	
Second 20%	7 000		7 000		7 700		9 000		6 000	
Third 20%	10 000		10 000		11 000		12 000		9 000	
Fourth 20%	16 000		16 000		17 600		18 000		15 000	
Highest 20%	25 000		23 000		27 500		27 000		24 000	
Total	60 000		60 000		66 000		70 000		55 000	
<i>Change in income distribution</i>										
<i>Shift of Lorenz Curve</i>										

Complete Table 2 based on the information in Table 1.

Table 2: The relationship between the change in income inequality and the shift of the Lorenz Curve.

Event	Change in income inequality	Explanation for the change	Shift of the Lorenz Curve
<p>A. Income of the highest-income groups is transferred to the lowest-income groups.</p>			
<p>B. Every household earns 10% more.</p>			
<p>C. All households have an additional annual income of \$2000.</p>			
<p>D. All households have to pay a lump sum annual tax of \$1000.</p>			