

Chapter 20: Income Inequality, Poverty, and Discrimination

Chapter 20 explores the causes of income inequality, its measurement, and means by which government redistributes income to reduce poverty. The Lorenz Curve (numerically, a Gini ratio) illustrates the degree of income inequality in a country. Income inequality is caused by differences in ability, education and training, discrimination, preferences and willingness to take risks, wealth, market power, luck, connections, and misfortune. While federal income taxes are mildly progressive, the federal government redistributes income primarily through spending for social welfare programs such as unemployment benefits, welfare benefits, food stamps, Medicaid, and rent subsidies.

The information in Chapter 20, while important, is only tested on the AP Economics exams with regard to the Lorenz Curve and causes of income inequality.