

### **Explanation of trend shown on the Lorenz curve:**

*The improvement in income inequality from 1998 to 2008 is most likely due to government actions to reduce income inequality in New Zealand like working for families for low and middle income earners and has reduced marginal tax rates for middle income earners.*

The improvement in income inequality made from 1998 to 2008 is most likely due to government actions to reduce income inequality in New Zealand. The government's role is to make adjustments to the market to ensure that outcomes are more equitable. The government has introduced several re-distribution policies in the past decade such as working for families which gives extra income to low to middle income earners, and there has been a reduction in the marginal tax rates (MTRs) that has benefited middle income earners. If the next round of tax cuts goes ahead, low income earners will benefit. The interest write-off on student loans has enabled people to pay off their loans more quickly and therefore have more disposable income. There has been an increase in the minimum wage rate which has increased disposable income for low income earners. There was a focus on training or retraining more unemployed people and placing them in work which would have increased their disposable income and lower unemployment figures for this period which equates to more disposable income for households.

### **Example of possible student response for CAUSES**

**Causes:** *Reasons for income differences may include, for example, cultural and value factors, the regions people live in, unequal opportunities, unequal endowment of resources, educational differences, and willingness to take risks. Students may argue that it's fair to receive higher income if you have undertaken tertiary education or are willing to take risks and set up a business, or they may argue that it's not fair because some people have an unequal start in life and lack of education or opportunity to earn more income.*

**Causes:** *The graphs indicate that certain ethnic groups may have more opportunity and support to achieve higher incomes than other groups. This is often as a result of tertiary education. Statistics show a low percentage of Pacific peoples attend and complete tertiary education and gain professional roles (see Appendix D). This may be one of the causes of their lower income levels when compared with the European group. The income levels also vary between different regions (statistics show this). Some possible causes could be the access to opportunities due to regional differences in resource endowments (the different amounts of natural, human, and capital resources that people have) and employment opportunities.*

*Causes of income inequality include: cultural factors, the market system, government policies, luck or ill luck, the different stages of life, unequal endowment of resources, the region you live in, your values (some people value things apart from wealth), exploitation, inherited wealth, unequal opportunity, and willingness to take risks. (Students may argue that income inequality is fair and equitable because it provides incentives to work hard and take risks in business to make profits, and encourages people to attain higher qualifications to earn higher incomes or students may argue that income inequality is unfair because not everyone starts out on a level playing field and some people have limited access to resources, opportunities or education.)*

### **Causes of income inequality include:**

*Culture and values can influence the decisions some families make regarding education or the accumulation of material things.*

*Access to opportunities can be hindered by regional differences in resource endowment, support for education is lacking or isn't a high priority for some families.*

*Unequal opportunities can also include gender income differences—the gender statistics consistently show that women are paid less than men in each ethnic group, which students should view as inequitable.*

*The forces of supply and demand determine what people get paid so a professional sports person or movie actor can be paid a lot more than many professional people like doctors or lawyers. This is evidence of inequity of market income. However, generally a professional will be paid more than a labourer, which is evidence to support the equity of income inequality.*

*Tertiary education indicates future income potential. Generally a degree increases your earning potential as shown by wage/salary statistics, which can be argued as being equitable or fair due to the effort and cost involved in getting a tertiary education.*

*Age and experience affects income. As we get older our income usually increases due to experience or job promotions. Age income statistics provide evidence of this, which may be argued as being equitable due to work experience.*

*People who inherit wealth have a head start, and already have the money to set up businesses or invest in income-generating assets—this advantage may be viewed as inequitable.*

*Some people are willing to take risks and set up businesses. Successful business owners and/or major shareholders generally receive more income than a person on wages or salary; statistics provide evidence of this as well, and this is evidence of the argument for income inequality being an incentive to work harder or take risks.*

### Example of possible student response for **IMPACTS**

**Impacts:** Income inequality can have positive social and socio-economic impacts on New Zealand such as incentives to show innovation, invention, entrepreneurship, and the investment in the economy that comes from household savings. Negative social impacts include poor health, anti-social problems, and the poverty cycle.

**Impacts:** *The positive social impacts of income inequality on New Zealand is the incentive this creates to show innovation, invention, entrepreneurship, and more efficient use of resources. The negative impacts of income inequality are poverty and lack of opportunities like tertiary education. There can be a feeling of political isolation because low income earners don't have the income to create a loud voice in the media. When a country has a large discrepancy in household income distribution we see some households (top 20 to 40 percent deciles) with substantial assets and wealth and others (lowest 20 to 40 percent deciles) with few assets and no wealth. The consumption possibility curve shows and explains the gap between those who have enough income to generate assets that create wealth and those who don't.*

*There can be anti-social behaviour like crime and domestic violence. Ill health, low self-esteem, and a build-up of resentment as the "have-nots" see the "haves" wealth. A poverty cycle can develop where low incomes leads to poor health and lack of education and therefore poor employment opportunities which means low paying jobs.*

**Impacts:** *The positive social impacts of income inequality on New Zealand is the incentive this creates to show innovation, invention, entrepreneurship, and more efficient use of resources. Investment finance becomes available due to the savings or surplus income from the top decile households. Some of these households also donate to charities and public assets. There is also the economic argument that some income inequality is necessary for efficiency in a free market economy. The trade-off for all these government provisions may be disincentives for people to work if they are receiving substantial transfer payments (benefits), to take risks (entrepreneurs), an increase in compliance costs, no clear price signals for resource allocation, and disequilibrium in the labour market.*

*The negative impacts of income inequality are poverty and lack of opportunities like tertiary education. There can be a feeling of political isolation because low income earners don't have the income to create a loud voice in the media. When a country has a large discrepancy in household income distribution we see some households (top 20 to 40 percent deciles) with substantial assets and wealth and others (lowest 20 to 40 percent deciles) with few assets and no wealth. This can lead to anti-social behaviour like crime and domestic violence. Ill health, low self esteem, and a build up of resentment as the "have-nots" see the "haves wealth. A poverty cycle can develop where low incomes leads to poor health and lack of education and therefore poor employment opportunities which means low paying jobs.*