

Positive effects: The efficient allocation of scarce resources so that fewer resources are wasted or misplaced. The market signals to the firm what things individuals demand and the most efficient means to produce it.

The savings that are possible by those individuals with surplus income makes funds available for greater capital formation. If all individuals had equal incomes it is likely that investment would decrease. Financial incentives that come with risk taking encourage individuals to continue undertaking existing ventures or start new ones.

Income inequality leads to a diversified and varied society. People with wealth are able to donate funds to various causes, while those on lower incomes have the possibility that their income may increase. Inequality of income will see individuals strive to succeed and be successful.

Negative effects: The human costs on those who live in poverty such as hunger, discomfort, poor health and possibly death or suicide. Poverty is a relative term and may be judged to differ between different countries and people of the world. Absolute poverty is a baseline idea where individuals do not have the basics to maintain health and life. These people fall short of a minimum standard of living necessary to survive in terms of food, warmth and shelter. Relative poverty is an idea that refers to a comparison with others. This measure will vary from place to place around the world. It can be taken to mean an individual whose standard of living is below the community norm as it relates to other households in the same community. For some, poverty is not a temporary situation. Poverty, with its lack of opportunities and social problems, may often lead to greater poverty. This cycle of poverty may be hard to break, and may result in ongoing poverty. There may also be detrimental social effects on those with high incomes as over-indulgence may result in obesity, heart problems and other health issues. There may be an accelerated and inefficient use of resources as they are exploited for short term gains rather than focussing on long term viability and sustainability. Individuals with ability may miss out on education and training due to a lack of financial means, which is a further waste of resources.