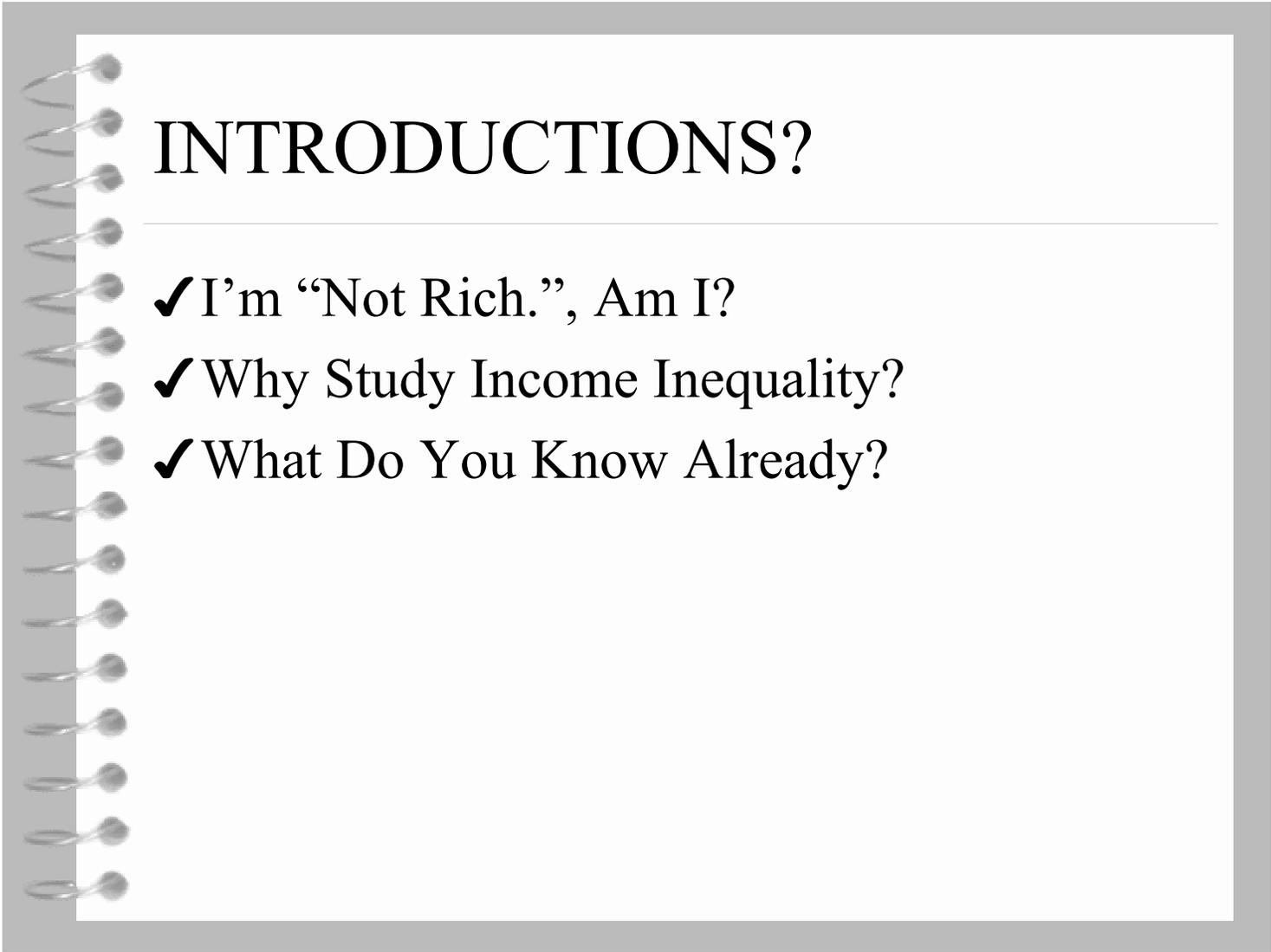
The image shows a spiral-bound notebook with a grey cover and a white page. The spiral binding is on the left side. The text is centered on the page in a black, serif font. The main title is in all caps and is the largest text on the page. Below it, the subtitle is also in all caps but smaller.

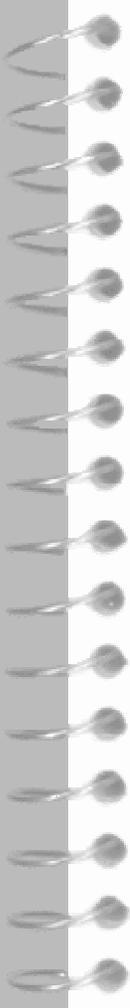
POVERTY AND THE
DISTRIBUTUION OF INCOME

INTRODUCTORY LECTURE

A graphic of a spiral-bound notebook with a grey cover and a white page. The spiral binding is on the left side. The text is written on the page.

INTRODUCTIONS?

- ✓ I'm "Not Rich.", Am I?
- ✓ Why Study Income Inequality?
- ✓ What Do You Know Already?

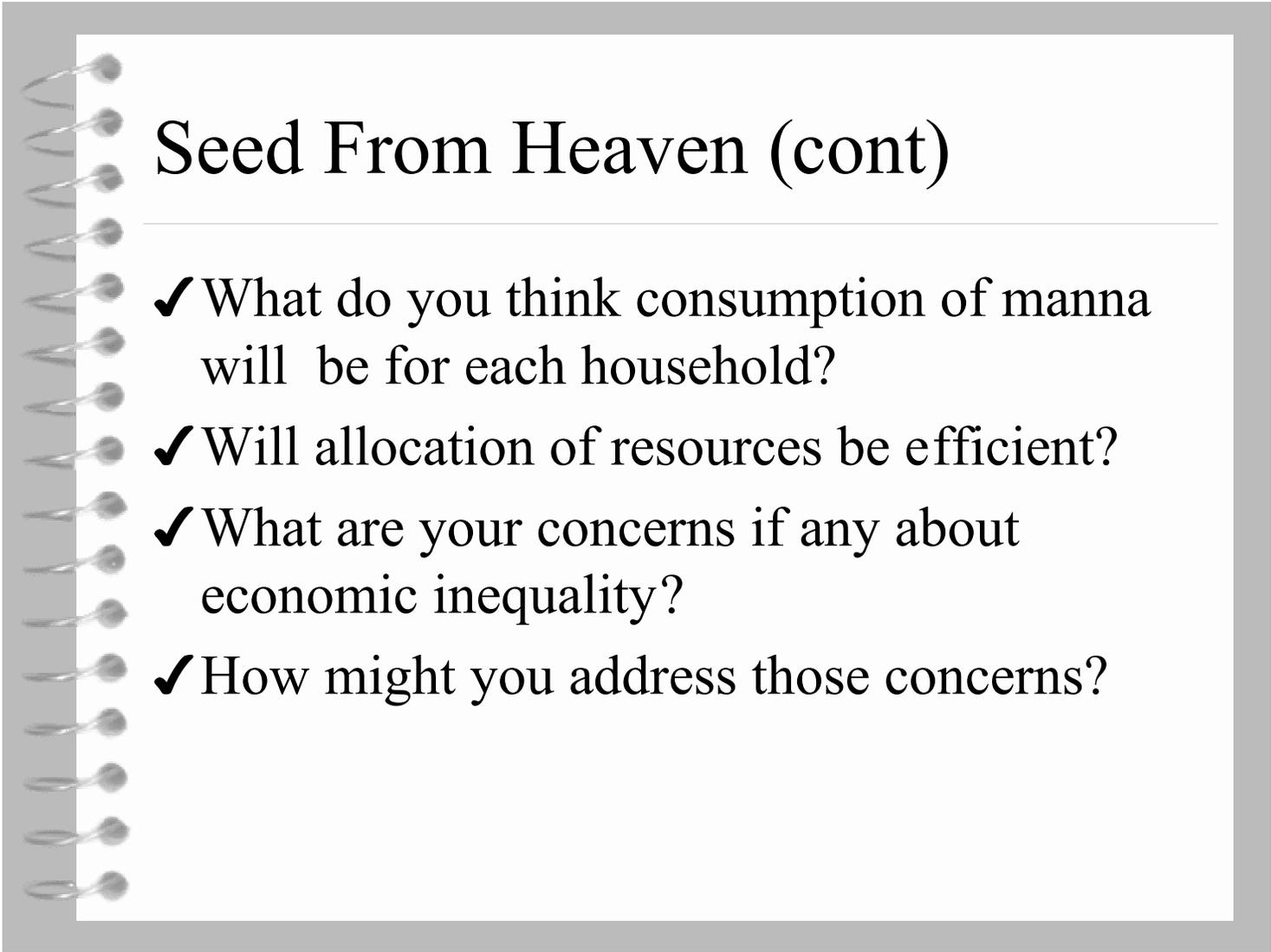


Manna From Heaven

- Manna falls from heaven; No production
- Endowments of Manna -- (0,2,3,5,10)
- What are your thoughts about this allocation of manna?
- What allocations of manna are efficient?

Seed From Heaven

- ✓ Two Goods -- Manna and Leisure
- ✓ Manna=f(Seed, Labor)
 - 2 Labor+1 seeds =1 loaf
- ✓ Seed Endowments (0,2,3,5,10)
- ✓ Labor Endowments -- 10 units each
- ✓ Production Possibility frontier for economy

A graphic of a spiral-bound notebook with a grey cover and a white page. The spiral binding is on the left side. The page contains the title and a list of questions.

Seed From Heaven (cont)

- ✓ What do you think consumption of manna will be for each household?
- ✓ Will allocation of resources be efficient?
- ✓ What are your concerns if any about economic inequality?
- ✓ How might you address those concerns?

Seed from Heaven, Uncertainty

- ✓ Two Goods -- Manna and Leisure
- ✓ Manna=f(Seed, Labor, Luck)
 - 1 labor+2 seeds = 2 loaves +/- e
- ✓ Seed Endowments Not Observable
- ✓ Labor Endowments - 10 units each
- ✓ Consumption of Manna Is Observable
 - (1,2,3,5,9)
- ✓ Now what do you think?

Why Bother?

✓ Economic Injustice

✓ Priority of Need

– Poverty

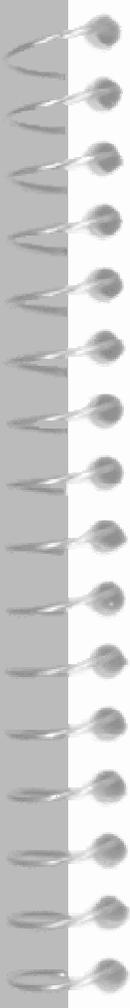
– Diminishing marginal utility

– Interdependent utility

✓ Externalities

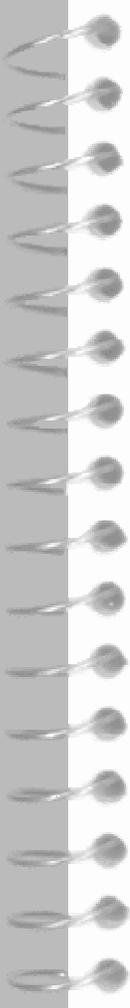
– Political instability

– Crime



The two greatest ends of economic inquiry seem to me to be the furnishing of general answers to two questions, first, why whole communities are rich or poor, and secondly, why inside each community some individuals and families are above, and others, below average in wealth. ... Economists sometimes vaguely wonder why economic theory is so unpopular ... Is there anything in this to excite surprise, if we reflect for a moment on the inadequacy of the answer furnished by the theory of distribution, as at present taught, to the questions in which the ordinary person is interested?

Edwin Cannan, 1905.



Issues for Economists

- ✓ How to measure inequality?
- ✓ How can observed differences in economic status be explained? How much is choice? How much is opportunity?
- ✓ Is there a trade off between equality and efficiency? Between equality and economic growth? What are the implications for efforts at redistribution?