A-LEVEL ECONOMICS • EXERCISE SHEET

3.3 Addressing income and wealth inequality

Name: ______________ Class: _________ Date: ___________ **Total: 25 marks**

KEY WORDS income 收入 • wealth 财富 • benefits 福利金 • progressive tax 累进税 • income and wealth inequality

Objective

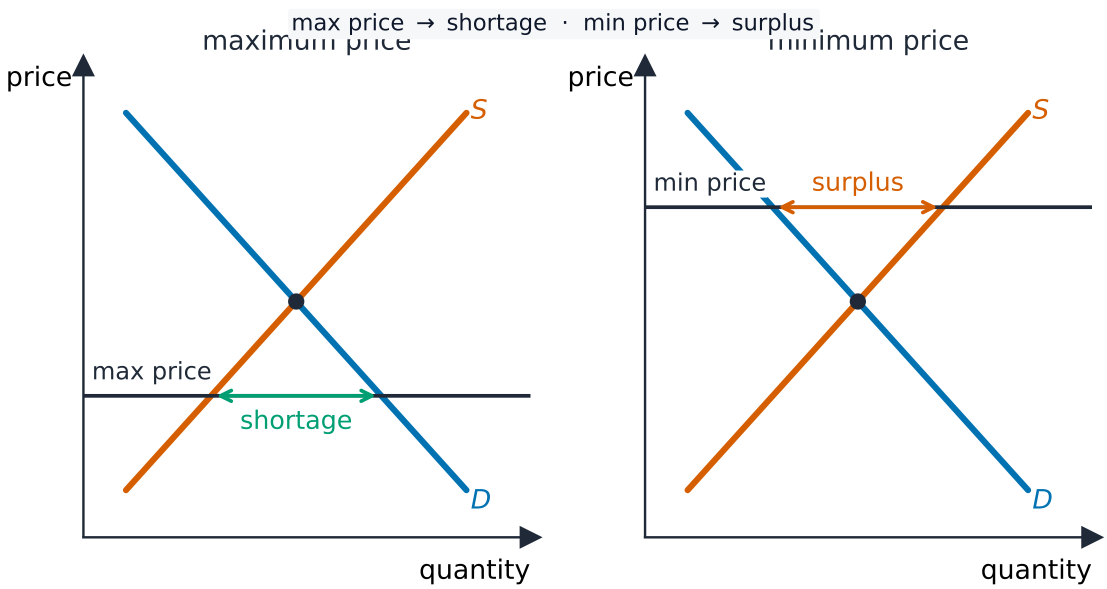
Build the skills to answer exam questions on **income and wealth inequality 收入与财富不平等** — the difference between **income 收入** (a flow) and **wealth 财富** (a stock), the causes of inequality, and the **policies** to reduce it.

You must be able to:

- distinguish income from wealth
- explain the causes of inequality
- analyse policies (progressive tax, benefits, state provision) and the trade-off with incentives

1 Worked examples

Reducing inequality



A minimum wage is one policy that affects the income of low-paid workers

- **Income** 收入 = a **flow** 流量 (wages, rent, interest over a period); **wealth** 财富 = a **stock** 存量 (assets owned at a point in time).
- **Causes:** differences in skills/wages, ownership of wealth, inheritance, unemployment.
- **Policies: progressive tax** 累进税 (higher % from higher incomes), **benefits/transfer payments** 转移支付, **state provision** 政府提供 of free services → **redistribution** 再分配.
- **Trade-off:** very high taxes and benefits may weaken the **incentive** 激励 to work.

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

2 Practice

2.1 State the difference between *income* and *wealth*. [2]

2.2 Define the term *progressive tax*. [2]

2.3 State two policies a government can use to reduce inequality. [2]

3 Exam-style questions

3.1 A tax is **progressive** if, as income rises: [1]

- **A** the percentage paid in tax rises
- **B** the percentage paid in tax falls
- **C** the percentage paid in tax stays the same
- **D** the amount paid in tax falls

3.2 Explain two policies a government could use to reduce income inequality. [6]

3.3 Discuss whether reducing income inequality always benefits an economy. [12]

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 income is a flow of money received over a period (wages, rent); wealth is the stock of assets owned at a point in time (houses, shares) (2 for a clear difference; 1 for a partial idea).

2.2 a tax that takes a larger percentage of income from those on higher incomes than from those on lower incomes (2 for a clear definition; 1 for a partial idea).

2.3 any two of: progressive taxation; benefits / transfer payments; state provision of free services (1 + 1).

3.1 **A**. A progressive tax takes a rising percentage as income rises.

3.2 *[6]* For **each** of two policies: AO1 1 + AO3 up to 2 — e.g. *progressive tax*: higher earners pay a larger share → after-tax incomes are closer together → the gap narrows. *Benefits*: cash transfers raise the income of the poorest → less poverty. Maximum 3 each.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** less inequality can raise consumption (the poor spend more of their income), improve health and reduce social problems. **Against:** high taxes and generous benefits may weaken the incentive to work and invest, and can be costly. Judgement: some redistribution helps, but going too far risks lower growth — the best level depends on how the policies are designed and the size of the incentive effects.