Chapter 5: Income, Wealth, & Poverty

Outline:

- Income concept
  - Definitions
  - Type of income
  - Factors influencing the level of income.
- *Property/Wealth*
  - Definitions
  - Property and Liability
- *Income distribution*
  - *Lorenz curve*
  - *Gini coefficient*
- *Poverty*
  - Who are the poor
  - Programs to eradicate poverty
Income

- The amount of money or goods and services received by an individual in a certain period of time. Usually received from market activity.
- Generally it is measured in money & the flow of economic goods available from production activities.
- Types of income:
  - Money Income
  - Real Income
  - Psychic Income
  - Disposable income
  - Discretionary income
Money Income

The flow of purchasing power that can be expressed in terms of currency received.

Income received in the form of money, such as:

- Wages & salaries.
- Profit, commission, interest / dividends, royalties (patent / copyright).
- Rent
- Gift
- Transfer payments (pensions).

Used as a guide for:

- Consumer purchasing power
- Quality of life

Example of income variable in research.

- Earnings before vs. after tax
- Per capita income
- Fixed income
Real income

- The flow of economic goods and services resulting from the productive work for a certain period that can meet the needs and desires of human.
  - Income is measured in terms of usefulness of the value of goods and services received by families.
  - Money value of consumption
  - It’s quite difficult to measure accurately
### 2 types of real income

<table>
<thead>
<tr>
<th>Direct income</th>
<th>Indirect Income</th>
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</thead>
<tbody>
<tr>
<td>• Goods/services acquired by family not in a form of money.</td>
<td>Goods/services offered by the family in exchange for money as an intermediate.</td>
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<tr>
<td>• E.g. grow vegetables, prepare meals, cleaning house, washing cars, use of durable goods.</td>
<td>E.g. purchase of food items/needs, child care, medical service, car wash.</td>
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<tr>
<td>• Medical facilities, playground</td>
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<td>• Can reduce family expenses</td>
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Psychic income

- Satisfaction @ dissatisfaction received by households.
  - Feelings
  - Attitude on the adequacy of money, attitude towards goods / services

- Non-monetary benefits derived from employment
  Example: Satisfaction, status or prestige derived from the efforts, happiness working in certain environments.

Disposable Income
Earned income after deducting income tax on individuals.
Factors Determining Income

Life cycle
- The middle age - more productive than the young and old.

Household involvement in market activities
- Number of earners in the households

Level of education
- Higher education

Age / experience / hours of working

Ownership of property
- Houses, land - income (rental)
- Financial assets (stocks, shares, insurance, bonds) - could yield
Factors influencing the value of money income

- Preferred goods/facilities, procurement of goods / commonly used by families
  - E.g. ready-made clothing vs. home sewn
- Accessibility of goods needed by the family
  - E.g. medical treatment, shops nearby
- Family size using family income
  - Large family size, needed more money → but there is an economics of scale
- Family incomes compared to the community
  - relative income
- Price of goods and services
  - Low price - high money value of income (sometimes lead to higher satisfaction)
- Whether money income can be changed/replaced money with income from other sources.
  - Families that produce their own goods and services - the higher amounts of money value
Property and wealth

- **Property**
  - Entity owned / purchased by households with interest earned by the owners through ownership / consumption (house, car, furniture, money, stocks, etc.)

- **Financial asset**
  - High value - have a high financial liquidity
  - Can accommodate many expenditures

- **Property**
  - Affect future spending b’cos of low liquidity.
  - Difficult to change to cash in a short period of time
  - E.g: house, land
**Wealth**

- **Wealth** = Total value of assets owned by the family - total liabilities (debt)
- Money income increase $\rightarrow$ wealth increase
- Purchase of assets which values increase $\rightarrow$ wealth increase
- Repay the debt $\rightarrow$ increase in net value & also increase the value of household wealth.
## Concept of income

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<tbody>
<tr>
<td><strong>Market income</strong></td>
<td>income from wages + business income + capital &amp; interest income</td>
</tr>
<tr>
<td><strong>Observable income</strong></td>
<td>market income + transfer income + value of the house occupied + small-scale enterprise income</td>
</tr>
<tr>
<td><strong>Actual Income I</strong></td>
<td>Observable income + value of homework</td>
</tr>
<tr>
<td><strong>Actual Income II</strong></td>
<td>Actual Income I + the value of real income at home cooking &amp; child care</td>
</tr>
</tbody>
</table>
Distribution of Income

- How wealth is shared by the people in a country.
- Measured by:
  - Mean income
  - Median income
  - Maximum & minimum
- Lorenz curve - cumulative measurement
- Gini coefficient - compare the actual income distribution with equal incomes.
Distribution of household income

- The income of all HH are ranked from lowest to highest
- Income is usually categorized into five quintile of 20%: lowest 20%, $\rightarrow$ 20% highest (quintile = $1 / 5$)
- The average income earned by each group can be calculated within each category.
Lorenz curve

- Shows for the bottom x% of households, what percentage of the total income they have y%.
- Curve 45° is the perfect income distribution: % cumulative income = % cumulative of the population is increasing at the rate the same for each quintile population.
Gini coefficient

- The **Gini coefficient** is the area between the line of perfect equality and the observed Lorenz curve, as a percentage of the area between the line of perfect equality and the line of perfect inequality. The higher the coefficient, the more unequal the distribution is.
Meaning of poverty:

- the state of being poor (e.g., status, wealth, attitude to life and work, consumption preference.)

- the lack of adequate means to meet particular ends.
DEFINITION OF POVERTY

- Varies from basic subsistence to social psychological self-perception of being poor.

- Frequently the concept refers to economic aspect of living.

- Even economic and socio-cultural are not all inclusive.

- Varies depending on its purpose:
  - to identify – objective definition (e.g. Level of income, wealth, consumption)
  - to design & evaluate program – a broader & more sociological definition.
DEFINITION OF POVERTY

- Complex, multidimensional (vary by gender, age, culture & other social & economic context)
- Lack of multiple resources for material wellbeing (physical deprivation)
- Importance of psychological aspects of poverty
- Lack of voice, power & independence $\rightarrow$ exploitation
  - Vulnerable to rudeness, humiliation, inhumane treatment
  - Unavoidable violation of social norms
  - Inability to maintain cultural identity
  - Inability to participate in community life $\rightarrow$ breakdown of social relation
- Lack of basic infrastructure
- Lack of physical, human, social and environmental asset (focus on asset rather than income) $\leftrightarrow$ Vulnerable and exposure to risk
Programs to eradicate poverty

- Social insurance
- Income assistance
- Housing assistance – subsidized low income housing, school lunch program
- Food stamps – vouchers
- Etc.