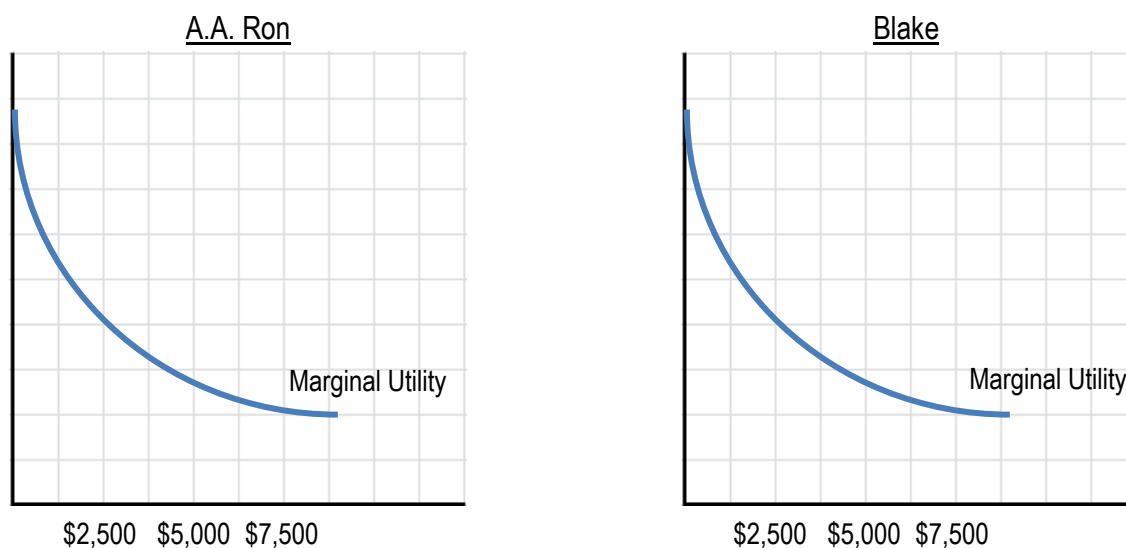


## CONCEPT: INCOME EQUALITY AND EFFICIENCY

- In the case of perfect equality, we maximize the total \_\_\_\_\_ of the population
  - **Utility** – a quantitative measure of \_\_\_\_\_ or satisfaction
  - **Marginal Utility** – the additional satisfaction from consuming one more unit (i.e. spending one more dollar)

**EXAMPLE:** Imagine an economy with two people, A.A. Ron and Blake (pronounced bah-lah-kay). A.A. Ron earns \$2,500 and Blake earns \$7,500. What happens if the government collects all income as revenue and distributes it evenly?



- In the case of perfect equality, the population lacks the \_\_\_\_\_ to work hard
  - "If you make the same income whether you work hard or not, why work hard?"
  - Greater equality comes with the \_\_\_\_\_ of reduced efficiency.
    - This is the **equality-efficiency trade-off**