CONCEPT: LORENZ CURVE AND GINI COEFFICIENT
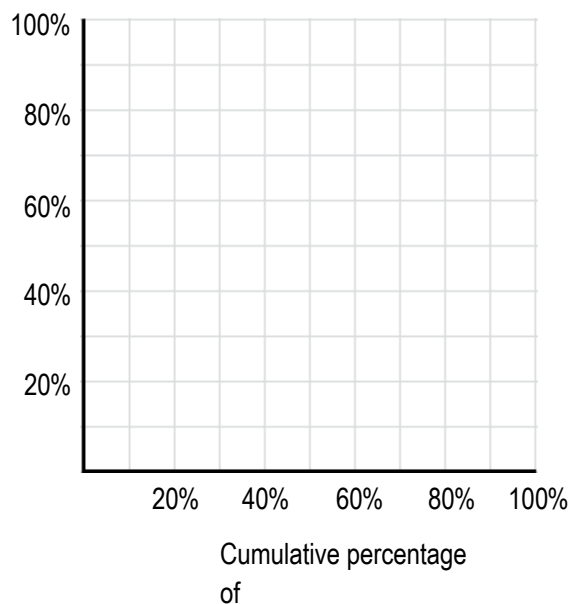
● The **Lorenz curve** helps visualize the _____ between rich and poor households.

   □ The horizontal axis   →   _____ percentage of _____

   □ The vertical axis   →   _____ percentage of _____

   □ The Lorenz curve breaks the population into **quintiles**, each representing _____ percent of the population

Cumulative percentage
of _____

Quintile	Percentage of Total Income	Cumulative Percentage of Total Income
Lowest 20 percent	3.4%	
Second 20 percent	8.6%	
Third 20 percent	14.7%	
Fourth 20 percent	23.3%	
Highest 20 percent	50.0%	
Total	**100%**	

Cumulative percentage
of _____

● The line of **perfectly equal distribution** depicts a situation with _____ income inequality

● The line of **complete inequality** depicts a situation where _____ household earns all the income

● The **Gini coefficient** is a ratio showing the level of income inequality in an economy.

   □ Gini coefficient = 0 → completely _____ distribution of income

   □ Gini coefficient = 1 → completely _____ distribution of income

$$Gini\ coefficient = \frac{A}{(A + B)}$$

A = area between Line of Equal Distribution and the Lorenz curve
B = area below Lorenz curve and above the x-axis

PRACTICE: Which of the following would represent the Lorenz curve of an nation where everyone earned equal income?

a) The Lorenz curve would have a negative slope.
b) The Lorenz curve would be U-shaped.
c) The Lorenz curve would be a straight line with a slope of 1.
d) The Lorenz curve would not exist.

PRACTICE: Which of the following is true regarding the Gini coefficient?

a) The Gini coefficient will only fall when population rises quickly
b) As income inequality rises, the Gini coefficient will fall
c) As income inequality falls, the Gini coefficient will fall
d) The Gini coefficient breaks the population into quintiles based on income

PRACTICE: The country of Newland has a Lorenz curve where the area between the line of equal distribution and the Lorenz curve is 0.22 and the area below the Lorenz curve is .46. What is the Gini coefficient for Newland?

a) 0.22
b) 0.32
c) 0.46
d) 0.68