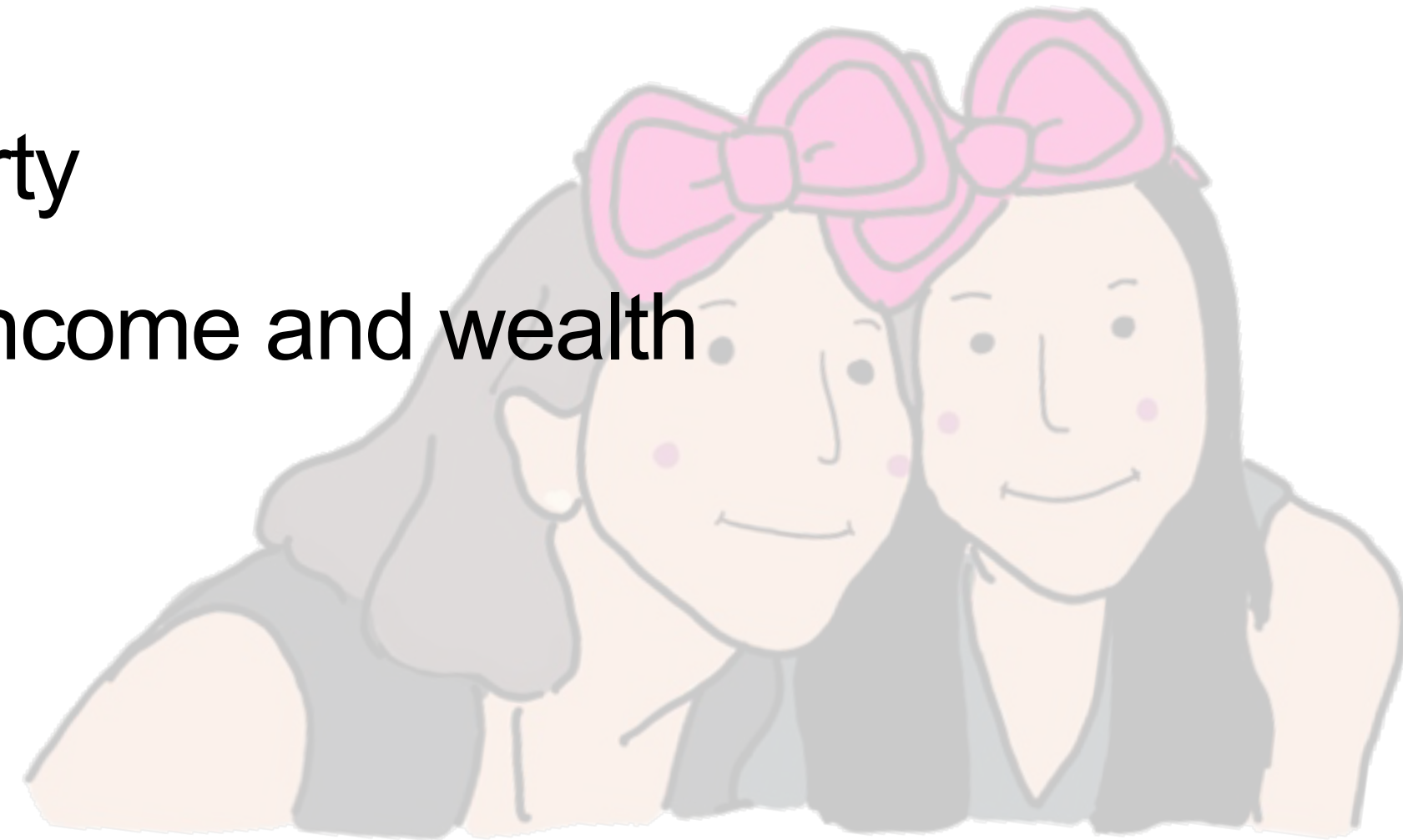


# MACROECONOMICS - Poverty

By Kru P'Da and Kru P'Eve Knockout.Economics

# Overviews

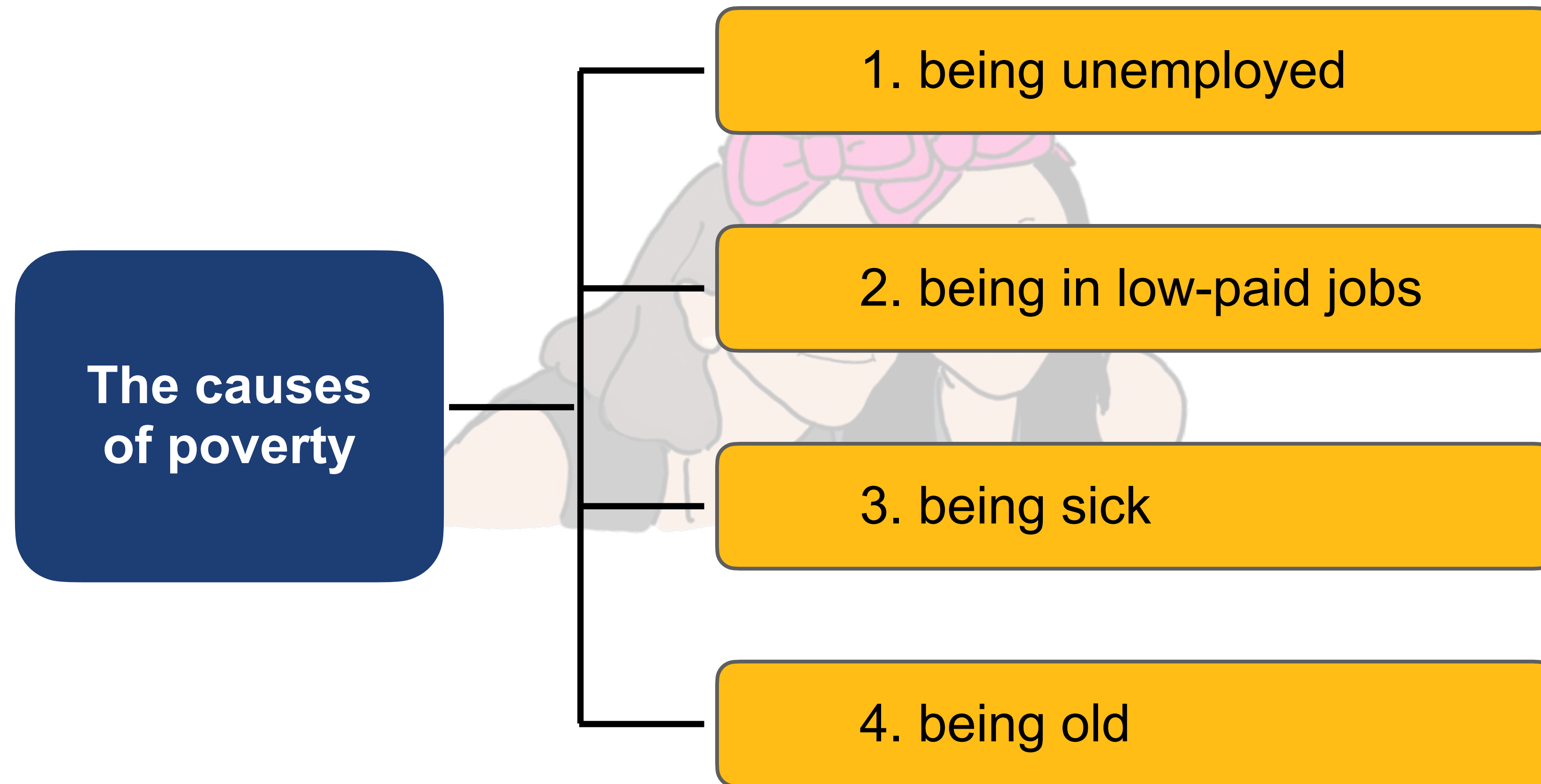
1. Absolute and relative poverty
2. The causes of poverty
3. Policies to reduce poverty
4. Policies to redistribute income and wealth



# 1. Absolute and relative poverty

| Poverty  |  |
|--|--|
| Absolute poverty   | Relative poverty   |
| <ul style="list-style-type: none"><li>• Absolute poverty is a condition where people's <b><u>income is too low to enable them to afford basic needs</u></b> such as food, cloth, shelter and healthcare</li><li>• E.g. income <b><u>less than US \$1.9 a day</u></b></li></ul> | <ul style="list-style-type: none"><li>• Relative poverty is a condition where people <b><u>are poor in comparison to others</u></b> in the country.</li><li>• Their income is too low to enable them to enjoy <b><u>the average standard of living</u></b> in their country.</li></ul> |

## 2. The causes of poverty



# 3. Policies to reduce poverty

| Policies to reduce poverty  | Limitation of policies   |
|---|--|
| <p><b>1. Providing education and training</b><br/>It improves people's productivity. Poor people can get jobs and income.</p>         | <p><b>1. Low quality of education</b><br/>It cannot improve productivity. Poor people cannot get jobs and income.</p>                      |
| <p><b>2. Promoting economic growth to create jobs</b><br/>E.g. government spending on building road creates jobs for poor people.</p> | <p><b>2. The lack of skills required.</b><br/>Poor people may lack of skills required by the job description, they might not get jobs.</p> |
| <p><b>3. A rise in minimum wage</b><br/>It increases wage for very low-paid workers.</p>  | <p><b>3. A rise in unemployment.</b><br/>It increases cost to firms and some workers maybe laid off.</p>                                   |
| <p><b>4. Encouraging multinational companies to invest in the country.</b><br/>It creates jobs for poor people.</p>                   | <p><b>4. The lack of skills required.</b><br/>Poor people may lack of skills required by the job description, they might not get jobs.</p> |
| <p><b>5. Providing benefits such as unemployed benefits.</b><br/>It increases income for unemployed people.</p>                       | <p><b>5. Reducing incentive to find new jobs.</b><br/>Too generous benefits makes incentive to be unemployed.</p>                          |

# 4. Policies to redistribute income and wealth

| Policies to redistribute income and wealth  | Limitation of policies   |
|---|--|
| <p><b>1. Imposing direct tax such as income tax and corporate tax.</b><br/>It is progressive tax which tax mainly falls on rich people. Government can redistribute income from rich to poor.</p> | <p><b>1. Reducing incentive to work</b><br/>High income tax discourages people to work resulting in lower tax revenue to government.</p> <p><b>1. Tax avoidance</b><br/>People may avoid paying tax.</p> |
| <p><b>2. Providing state benefits e.g. unemployed benefit</b><br/>It increases income for unemployed people and reduces income gap between rich and poor.</p>                                     | <p><b>2. Reducing incentive to find new jobs.</b><br/>Rising in unemployed benefits reduces incentive to work.</p>   |
| <p><b>3. Providing education and healthcare</b><br/>It improves productivity of poor people. Then poor people can get jobs and income.</p>  | <p><b>3. Low quality of education and healthcare</b><br/>It cannot improve productivity. Poor people cannot get jobs and income.</p>   |
| <p><b>4. A rise in minimum wage</b><br/>It increases wage for very low-paid workers. Then, income gap between rich and poor become smaller.</p>   | <p><b>4. A rise in unemployment.</b><br/>It increases cost to firms and some workers maybe laid off.</p>   |

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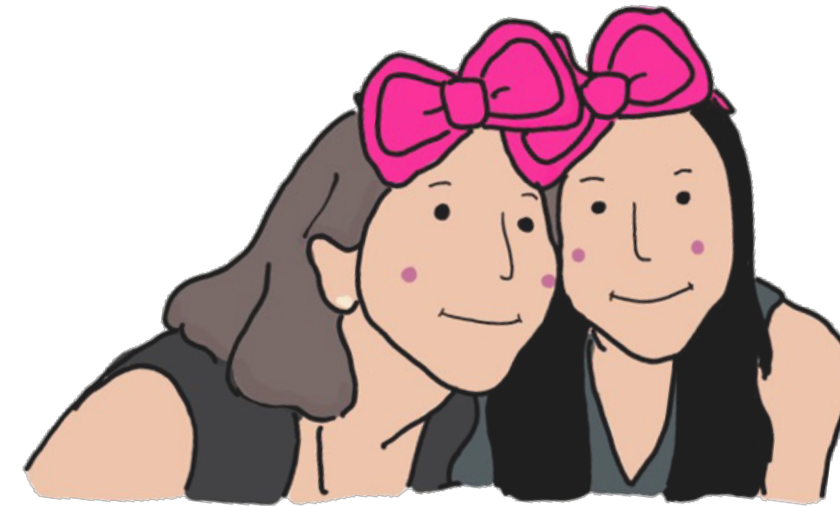
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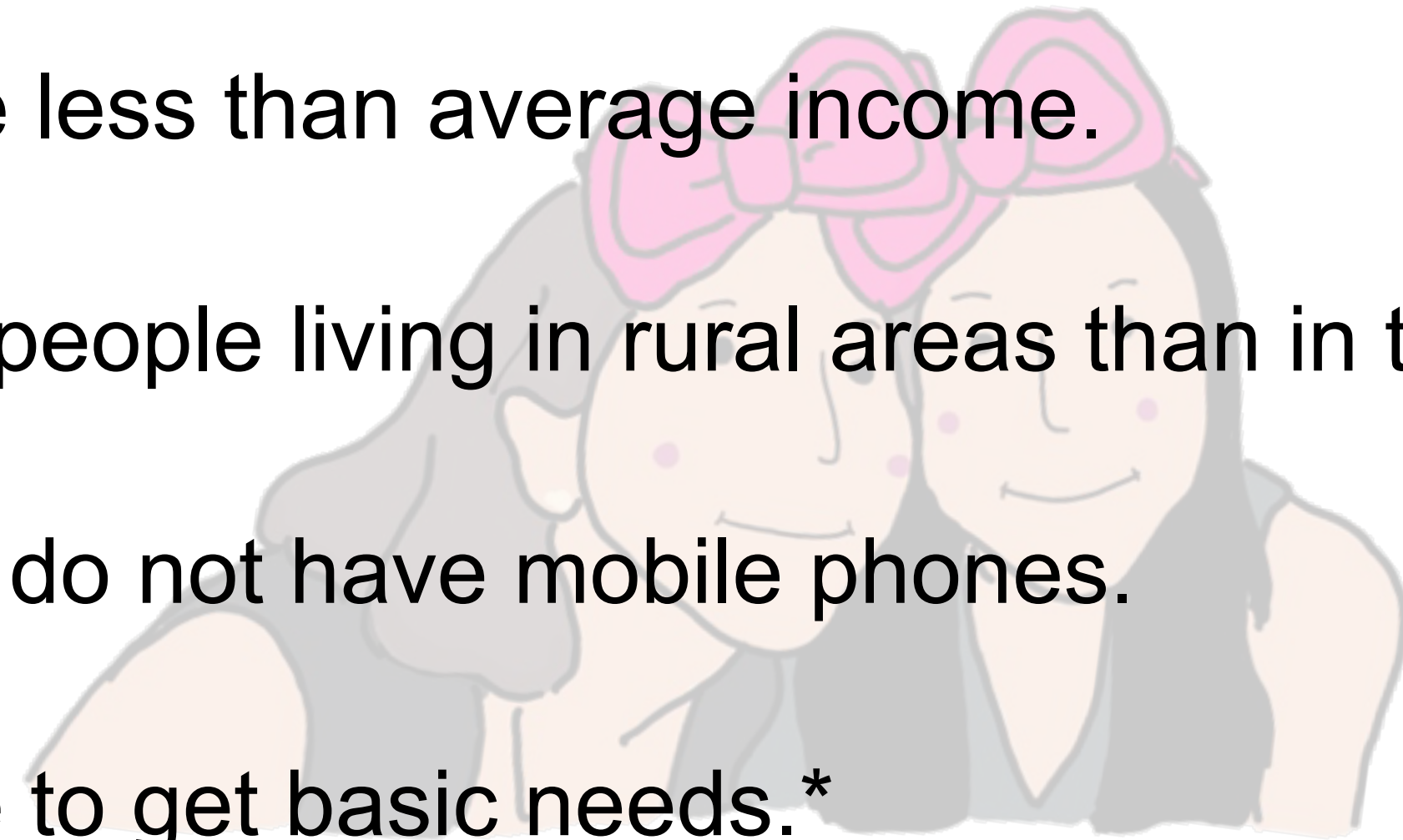
# **MACROECONOMICS - Exercise**

## **Poverty**

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## Exercise: MCQ

- 1.) Which condition shows that a country has absolute poverty?
- A. Many people have less than average income.
  - B. Larger number of people living in rural areas than in the city.
  - C. Majority of people do not have mobile phones.
  - D. People are unable to get basic needs.\*



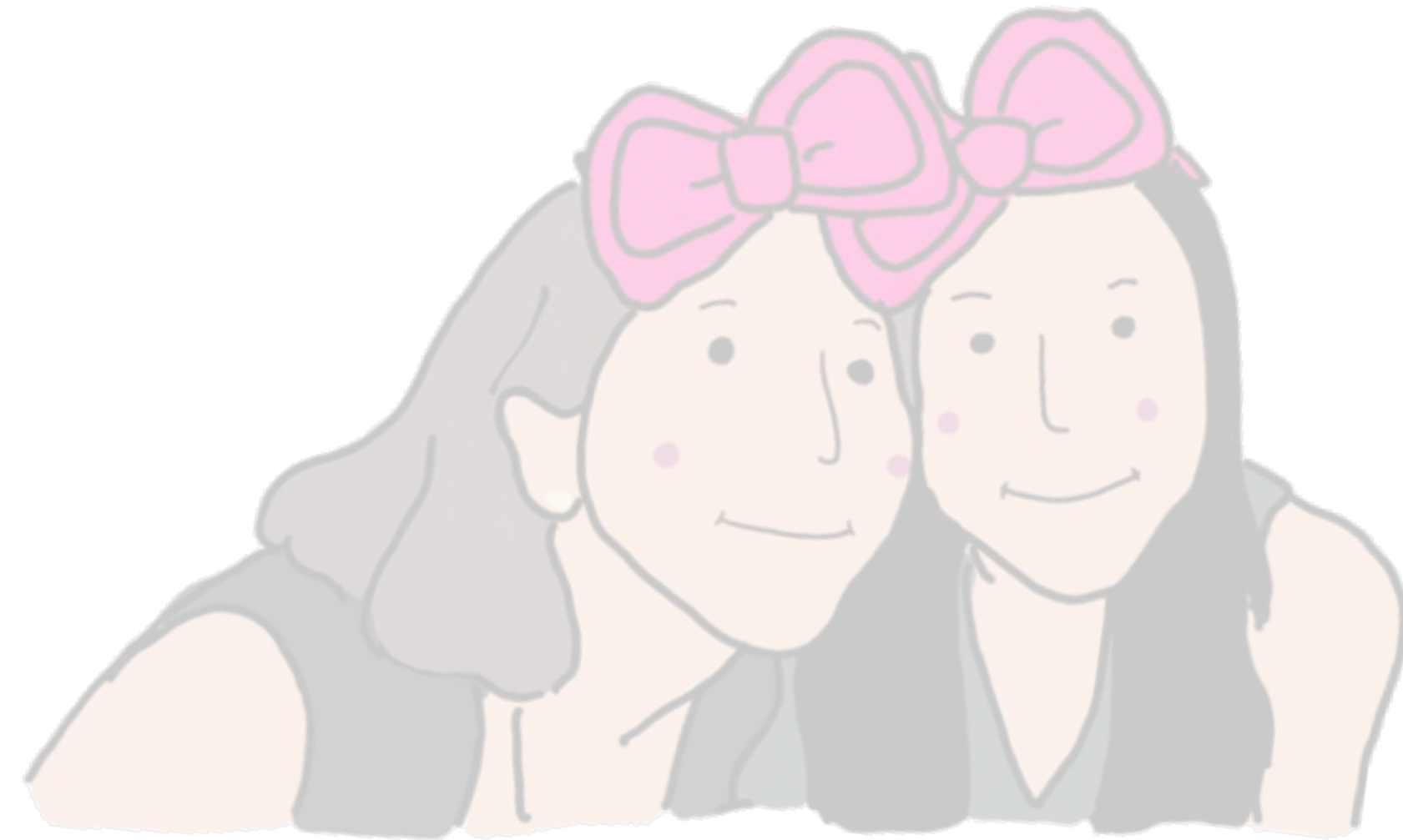
## Exercise: MCQ

2.) A government increases welfare benefits paid to unemployed people and increases income tax on the top rate of income. What will be the effect on poverty and tax system?

|    | Poverty  | Tax system              |
|----|----------|-------------------------|
| A* | decrease | become more progressive |
| B  | decrease | become more progressive |
| C  | increase | become more regressive  |
| D  | increase | become more regressive  |

# Exercise: Essay

1.) Analyse how a rise in tax rates may influence poverty. [6]

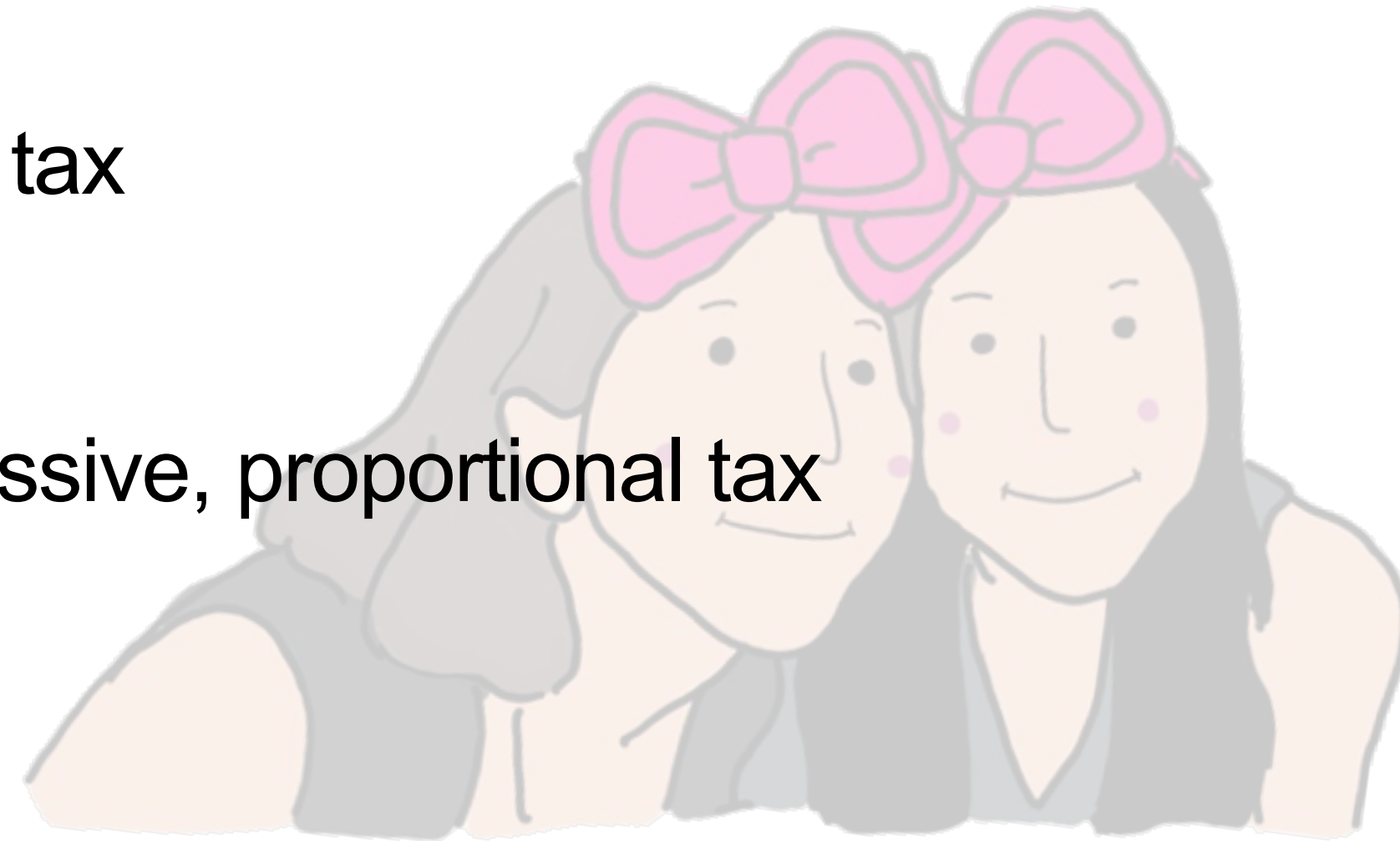


# Exercise: Essay

1.) Analyse how a rise in tax rates may influence poverty. [6]

**Tax** : Direct and indirect tax

Progressive, regressive, proportional tax



**Poverty** : Absolute poverty, relative poverty.

# Exercise: Essay

1.) Analyse how a rise in tax rates may influence poverty. [6] 0455/22/F/M/15

- **A rise in progressive taxes => e.g. income tax**

=> Rich people pay higher proportion of their income

=> Reducing income gap between rich and poor

=> Reducing relative poverty

- **A rise in regressive taxes => e.g. indirect tax or tax on spending**

=> Poor people pay higher proportion of their income

=> Increasing income gap between rich and poor

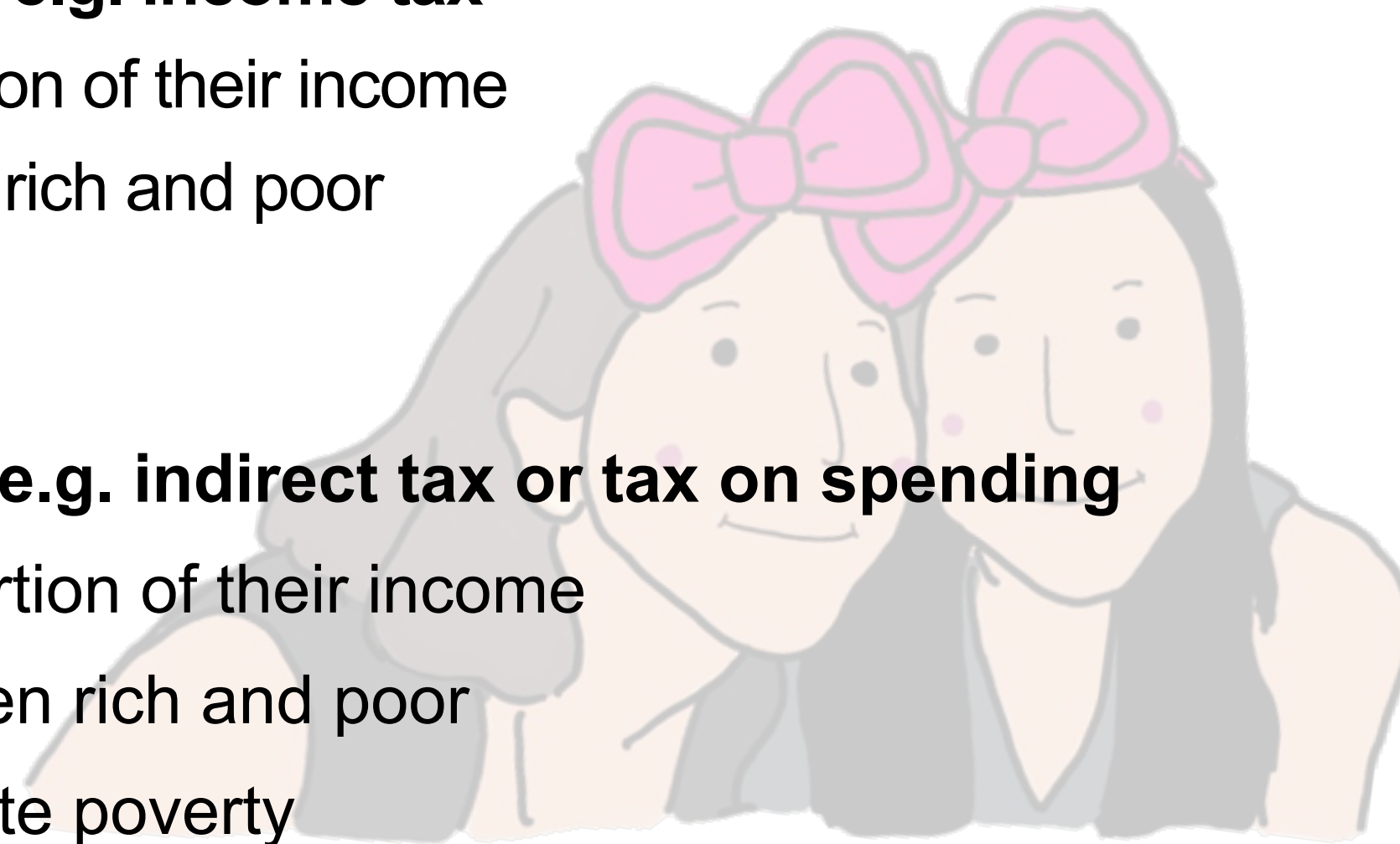
=> Increasing relative and absolute poverty

- **Tax revenue can be used to help the poor => By providing basic needs e.g. food, house**

=> Reducing absolute poverty

- **Tax revenue can be used to help the poor => By providing education and training**

=> Reducing relative poverty



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