

Chapter 15 Project

Poverty and Income Inequality

Purpose

In Chapter 15, you have learned about poverty, some programs designed to assist people who live in poverty, and income inequality.

The purpose of this exercise is to show what it means to live in poverty and to measure the change in income equality in the United States over time.

Directions

This exercise has two parts. In the first part, you will try to budget everyday expenses on the income that defines the poverty level. In the second part, you will measure income inequality in the U.S. between 1974 and today.

Part 1 - Budgeting on a Poverty Line Income

In 2018, the poverty line was defined as an income of \$13,064 or less per year for an individual under the age of 65. In estimating the poverty line, the government assumes that one-third of income will be spent for food.

- How much of the \$13,064 income will be spent for food in a year? In a day? How would you manage to eat on this amount every day?
- If your annual income is \$13,064, then your monthly income would be approximately \$1,089. If you use one-third of your income on food, how would you allocate your monthly income of \$1,089 between these categories of expenditures?

Expenditure Category	Monthly Spending
Food	\$363
Housing	
Transportation (car payment, insurance, gas, tires, maintenance)	
Additional expenses (electricity, wireless, TV, water)	
Clothing	
School expenses	
Other (health insurance, health care entertainment, debt repayment, donations)	

- Research and estimate your expected future income when you finish college and begin working full-time in your chosen occupation. How does the poverty budget you completed in #2 compare with the budget you hope to have in the future?

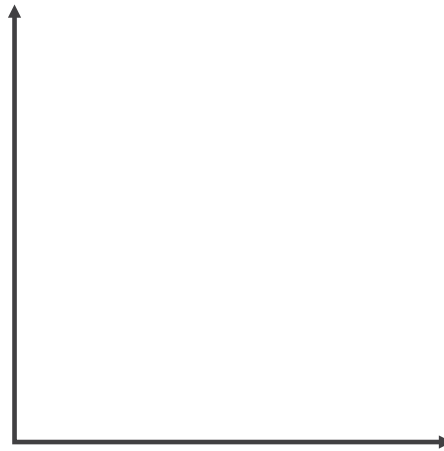
Part 2 - Measuring Income Inequality

The following table uses quintiles to show the distribution of income in the U.S. in 1974 and 2017.

- Complete the table by finding the cumulative share of each quintile.

Income Category	Share of Income in 1974 (%)	Cumulative Share in 1974 (%)	Share of Income in 2017 (%)	Cumulative Share in 2017 (%)
First quintile	4.3		3.1	
Second quintile	10.6		8.2	
Third quintile	17.0		14.3	
Fourth quintile	24.6		24.4	
Fifth quintile	43.5		45.6	

- Using the data you calculated in the previous table, create a Lorenz curve diagram reflecting the income distributions for 1974 and 2017 on the same graph.



- What has happened to income inequality in the forty-two years between 1974 and 2017? What could have caused this change in income inequality?

Checklist

Part 1

- Consider spending decisions with an income below the poverty line.
- Estimate your budget if your income was below the poverty line.
- Compare your expected budget to the poverty budget.

Part 2

- Calculate the cumulative share across quintiles in both 1974 and 2017.
- Construct a Lorenz curve diagram.
- Compare income inequality.