

Chapter 16 Project

Poverty and Economic Inequality

Purpose

In this chapter, 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, you will try to budget everyday expenses on the income that defines the poverty level. In the second, you will measure income inequality in the U.S. between 1974 and today.

Part 1 - Budgeting on a Poverty Line Income

In 2022, the poverty line was defined as an income of \$13,590 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.

1. How much of the \$13,590 income will be spent for food in a year? In a day? How would you manage to eat on this amount every day?
2. If your annual income is \$13,590, then your monthly income would be approximately \$1,132. If you use one-third of your income on food, how would you allocate your monthly income of \$1,132 between the following categories of expenditures: housing, transportation (car payment, insurance, gas, tires, maintenance), additional expenses (electricity, wireless, TV, water), clothing, school expenses, and other expenses (health insurance, health care, entertainment, debt repayment, donations).
3. 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 2019.

1. 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 2019 (%)	Cumulative Share in 2019 (%)
First quintile	6.2		5.1	
Second quintile	12.0		10.2	
Third quintile	16.7		15.2	
Fourth quintile	23.2		22.5	
Fifth quintile	41.8		47.0	

2. Using the data you calculated in the table, create a Lorenz curve diagram reflecting the income distributions for 1974 and 2019 on the same graph.
3. What has happened to income inequality in the forty-five years between 1974 and 2019? 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 2019.
- ☐ Construct a Lorenz curve diagram.
- ☐ Compare income inequality.