

Subject Area: Economics  
Level: CAPE  
Curriculum Topic: Poverty  
Unit 1            Module 3            Objectives 1-11

Key Teaching Points:

- (a) Size and functional distribution of income
- (b) How income is distributed
- (c) Lorenz curve measurement of income inequality and Gini co-efficient
- (d) Measures to reduce inequality
  - (i) taxes
  - (ii) subsidies
  - (iii) transfers
- (e) Distinguish between absolute and relative poverty
- (f) Outline factors that contribute to poverty
- (g) Explain why certain categories of people are more susceptible to poverty
- (h) Evaluate the different ways used to measure poverty
- (i) Outline strategies used by governments to alleviate poverty
- (j) Analyse the economic costs of poverty
- (k) Assess the economic benefits of intervention to alleviate poverty

Worksheet (Suggested time – 1hour)

#### Section A – Multiple Choice

1. The minimum level of income required for a person to acquire basic necessities is referred to as
  - a. Poverty line
  - b. Poverty gap
  - c. Absolute poverty
  - d. Relative poverty
2. Interest and profit are both
  - a. Factors of production
  - b. Factor returns
  - c. Factor inputs
  - d. Factor outputs
3. A situation where a person is unable to acquire basic human needs is referred to as
  - a. Relative poverty
  - b. Absolute poverty
  - c. Nominal poverty
  - d. Indigenous poverty

4. All of the following are measures of poverty EXCEPT
  - a. Human Development Index
  - b. Head Count Index
  - c. Basic Needs
  - d. Basic Services
  
5. In a country where there is equal income distribution, the Gini Co-efficient will be
  - a. 0
  - b. 1
  - c. 0.5
  - d. -1
  
6. The further away the Lorenz curve is from the line of absolute equality
  - a. the more unequal will be the distribution of income
  - b. The more equal will be the distribution of income
  - c. The more unequal will be the distribution of investment
  - d. The more equal will be the distribution of investment
  
7. The distribution of income in an economy flows between
  - a. Households and firms
  - b. Households and factors
  - c. Factor inputs and factor outputs
  - d. Factor returns and businesses
  
8. Measures to reduce income inequality includes
  - a. Training, taxes, subsidies
  - b. Transfers, taxes, support
  - c. Transfers, taxes, subsidies
  - d. Training, tariffs, support
  
9. Persons most susceptible to poverty include all of the following EXCEPT
  - a. Physical challenged
  - b. Elderly
  - c. Youth
  - d. Middle income earners
  
10. The returns to the factors of production include
  - a. Land, labour, capital, entrepreneurship
  - b. Rent, profits, interest, salaries
  - c. Savings, investment, consumption
  - d. Households, firms, expenditure, income

Section 2 – Structured Question

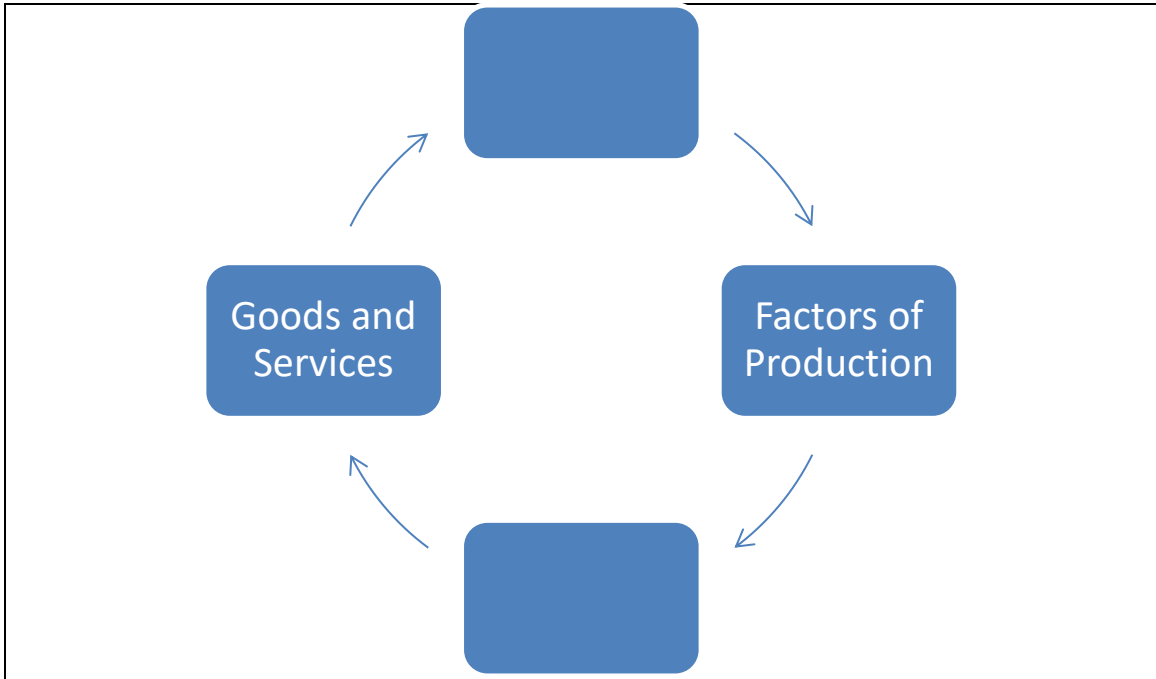
1. Discuss the concept of “income inequality”.

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2. Complete the following diagram showing income distribution.



3. Define the “Lorenz Curve” and discuss how it measures income inequality.

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4. Describe three methods used by governments to reduce income inequality.

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5. Explain three factors that contribute to poverty.

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6. Examine three factors that can be used by governments to alleviate poverty.

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7. Do you agree that there are benefits to poverty eradication by governments? Justify your response.

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## Answer Key

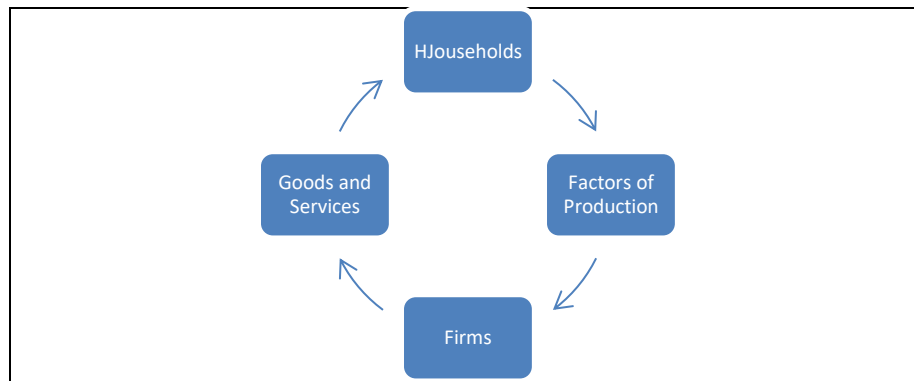
### Multiple Choice

1. A
2. B
3. B
4. D
5. A
6. A
7. A
8. C
9. D
10. B

### Structured Questions

1. Not all persons in society receive the same level of income. Some persons receive very high income levels and others receive very low incomes. This is regarded as income inequality. It means that some persons can enjoy a high standard of living whilst others face a very low standard of living. Those who face a low standard of living may experience poverty and so governments implement measures to reduce income inequality by taking from the rich and redistributing to the poor so that everyone can enjoy a reasonable, average standard of living that covers basic needs.

2. Answer below



3. The Lorenz curve is placed in relation to the line of income equality which shows an even income distribution. No one is richer or poorer than the other. This is the ideal situation but in reality does not exist.  
The Lorenz curve shows the actual income distribution in an economy.  
The closer the Lorenz curve is to the line of absolute equality, the more equal will be the distribution of income.  
The further away the Lorenz curve is from the line of absolute equality the more unequal will be the distribution of income

4. Taxes – Government can use a progressive tax system, which will mean that those who earn higher incomes will have to pay a higher percentage of their earnings in taxes. Their personal disposable income will decrease, thereby reducing income inequality between lower and higher income earners. Wealth and inheritance taxes also take from the rich to redistribute to the poor.

Subsidies – Government can provide subsidised goods and services to make it more affordable to persons so they can benefit from the same provisions as other persons in society. This reduces income inequality. For example, all pensioners can ride public transportation buses and the ferry to Tobago free of charge. Subsidised housing also helps reduce income inequality amongst those who have and those who don't.

Transfers – Disability and unemployment benefits, old-age pensions, all attempt to provide income to disadvantaged groups and so reduces income inequality.

5. Social and Physical environment - wars, tribal conflicts, immigrants and societies with rigid class systems can experience difficulty accessing employment opportunities and resources. Persons who live in the desert, mountains etc may also experience poverty.

Discrimination (gender, race) – this limits certain sections of society from access to employment and resources. Mothers who care for children have restricted access to opportunities. Certain ethnicities may not get higher paying jobs.

Restrictions on certain economic activities – Some businesses require a license to operate and so restricts the poor from operating as they are unable to afford the license fees. A poor person who wants to make food to sell on the roadside must acquire a food badge and have their home inspected to ensure health and safety conditions are observed. A poor person may not be able to meet these conditions and will be restricted from operating in order to improve living standards.

Non-ownership of resources – For families that do not own resources, living conditions can be deplorable as persons resort to squatting, ramshackle homes, lack of electricity and other utilities. There is also no opportunity for education as learning materials cannot be acquired and conditions are not conducive to studying.

Family size – with larger family sizes, resources have to be shared amongst more persons so that there is less for each one leading to poverty. For example, a household with income of \$1 000 and 4 family members has an income per family member of \$250. A household with income of \$1 000 and 10 family members has an income per family member of \$100. The larger household can afford less goods and services and is relatively poorer than the smaller household.

Single parent; female headed households – Where there is only one parent in a household, caring for children restricts opportunities for acquiring a job leading to

poverty. Amount of income available to the household is restricted to what one parent can earn.

6. Free education and health care – Trinidad and Tobago has a mixed economy and so there is both public and private provision of education and health care. Early childhood, primary and secondary education is free of charge to all students. Tertiary education is subsidized based on a means test.

Transfer payments – old aged pensions, unemployment benefits

Subsidised housing

Minimum wage legislation – In Trinidad and Tobago, the lowest wage an employee can receive is \$15.00 per hour, to ensure that basic needs can be provided for. This can also mean that where employers cannot afford the minimum wage, persons will become unemployed.

Equal employment opportunities - Each person should have an equal chance of obtaining a particular job once the application criteria is met

Government employment creation (special works programmes)

Entrepreneurship opportunities – YBTT, NEDCO, IBIS, MIPED

Skills training – YTEPP, SERVOL, Ministry of Community Development

On-the-job training opportunities

7. By giving opportunities to the poor and through education and health care there is development of human capital  
This will also result in an improvement in well-being as measured by the UNDP (HDI)  
Eventually there will be a more equitable distribution of income as basic needs are met