The distribution of income and wealth Cheat Sheet

by nelaorav via cheatography.com/167833/cs/35073/

Wealth

Wealth	anything owned by people with money value (house, machinery, financial assets, etc.)
Non-human wealth	materialistic things (house, assets, etc.)
Human wealth	education, skills, characteristics, training, etc. (it is difficult to calculate it because it is not a reliable factor)
Private wealth	goods owned by a person with money value (jewelry, land, etc.)
Social wealth	assets owned by government for the benefit of the general public
The national wealth	the total amount of wealth owned by general public and government

The national wealth

The national wealth = private wealth + social wealth

Income

Income	is measured as a flow of earnings over time; can be measured only over time not at a specific point

Disposable income

Disposable income	income after taxation; person can choose how to dispose it
	higer income tax = lower disposable income
	higher disposable income = higher consumer expenditure

Sources of income

Human wealth produces earned income	better education = better income

Sources of income (cont)

Non-human wealth produces unearned income	interest, rent, lottery, inheritance, etc.
Earned income	income gained from employment (wages, salaries, bonuses, comissions, etc.)
Unearned income (passive income)	not related to employment; from another source

The distribution of wealth

Reasons for differences

Inheritance	creates large wealth gap
Savings and investments	increases ones wealth
Self-made wealth	invention/development of new products
	prediction of the future
	ownership/discovery of natural resources
	luck

Today's trends

Women are working in high-paying jobs and own assetes

Increase in home ownership (high prices of real estate increases the wealth)

Both are reasons why distribution of wealth is not as unequal as in the past

Reducing wealth inequalities

Pre-distribution policies	education, skills, characteristics, training, etc. (it is difficult to calculate it because it is not a reliable factor)
Post-distribution policies	tax, benefits form the government, etc.

Taxes

Inheritance tax	tax disposed on wealth imposed at death; at time of death a certain percentage is taken away
	Slovakia's tax system doesn't include inheritance tax
Wealth tax	people with holdings of wealth are paying each year a special tax; this is one of the reasons rich people flee the country they live in
Other methods	better education, owning of real estate, owning of busnisses

The worlds distribution of income

richer (developed) and poorer (less developed) countries

Measuring the standard of living in a country

GDP per capita	the total money value of all Gs & Ss produced ina a country in a year; also equal to the national income of the country
Real GPD	measures an economy's total Gs & Ss in a given year, taking into account changes in price levels
Nominal GDP	measures an economy's total Gs & Ss in a year given the current prices, without adjustments for inflation

Calculations

Calculation Reminders

$$\text{Nominal GDP} = \text{Units of Output} \times \text{Price Per Unit}$$

$$\text{Real GDP} = \text{Units of Output} \times \text{Price Per Unit from Base Year}$$

$$\text{\% Change In Prices} = \text{INFLATION RATE} = \frac{\text{Year 2 - Year 1}}{\text{Year 1}} \times 100$$

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Why is GDP per capita sometimes incorrect

It doesn't take into account political or cultural freedom.

It doesn't categorize countries based on their education or healthcare.

It excludes unpaid work - charities, etc.

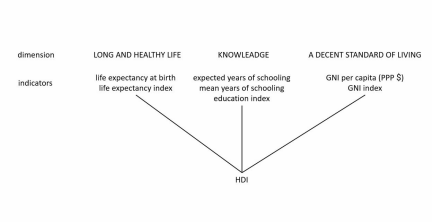
It ignores the impact of economical development.

It takes into account little information about private wealth.

Development indicators

HDI (human development index)	provides wider measure of living standards and economic welfare than real GDP per capita
	it combines 3 diffrenet measures

HDI index calculation



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