

ECONOMICS IN THE REAL WORLD

STUDENT RESOURCES

A-LEVEL



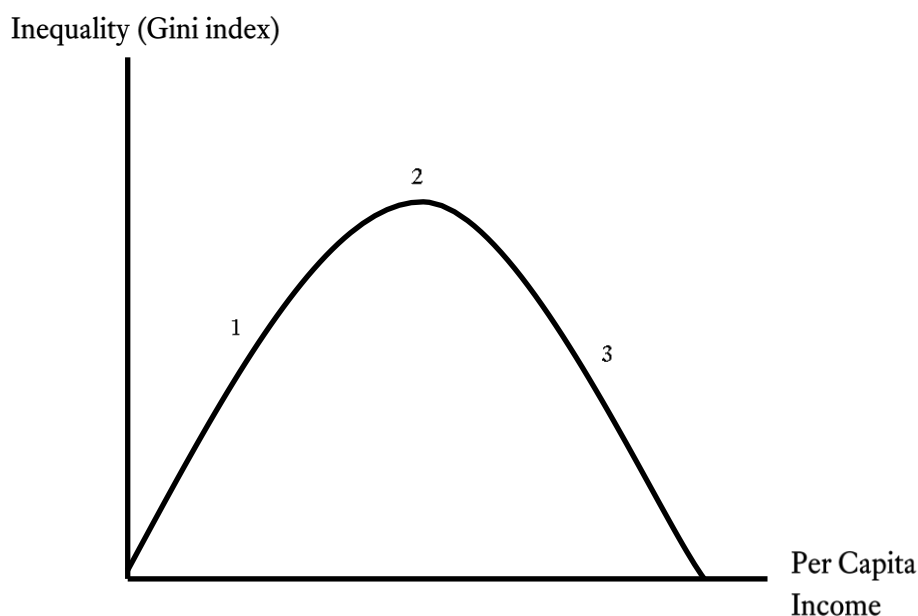
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Cambridge International AS & A Level Economics

Section 4— The Macro Economy, Classification of countries.

The Kuznets Curve

Kuznets Inequality Curve



Explaining the diagram:

1: When economic development is low, production tends to be in the agricultural sector, therefore the majority of the population will have little income. As everyone has low incomes there is little income inequality.

1-2: As industrialization begins, the economy develops and the country gradually moves away from primary sectors to secondary. Productivity increases and a few peoples incomes increases. This leads to an increase in income inequality.

2: This is the turning point where income inequality beings to fall. This is because as per capita income increases government revenue will also increase. This will allow the government to increase spending on welfare and other measures, facilitating a reduction in income inequality.

3. Furthermore, as economic development continues the secondary sector becomes more dominant and a greater share of the population begin to receive higher incomes. A combination of this effect, along with government redistributive measures will lead to a reduction in income inequality.

