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Inequality and Poverty

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Poverty of what?

- Overall expenditure or item-by-item consumption?
- Absolute or relative?
- Temporary or chronic?
- Households or individuals?
- Moreover how to measure it?
- and why a poverty line?

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Measuring poverty 1: HDC Head-count and H-C ratio

- Thus it measures the number of people, households under the poverty line

$$HCR = \frac{HC}{n}$$

- It fails to capture the extent to which individual income falls below the poverty line;
- Moreover, is insensitive to the fact that some people are only the poverty line and some others are poor.

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Measuring Poverty 2: Poverty Gap Ratio (IGR)

- This indicator allows to take into account how is poor an individual measuring the difference from the poverty line

$$PGR = \frac{\sum_{y < p} (p - y_i)}{nm}$$

- With n that is the population and m is the mean income.
- This indicator gives us the opportunity to understand to measure of resources required to eradicate poverty

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Measuring Poverty 3: Income Gap Ratio (IGR)

- This indicator is very similar to the PGR but allows to take into account as well as the number of poor people under the poverty line

$$IGR = \frac{\sum_{y < p} (p - y_i)}{nHC}$$

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Measuring Poverty 3: Income Gap Ratio (IGR)

- This indicator is very similar to the PGR but allows to take into account as well as the number of poor people under the poverty line

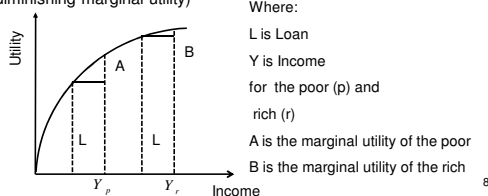
$$IGR = \frac{\sum_{y < p} (p - y_i)}{nHC}$$

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The functional impact of poverty I

• Poverty and Credit:

- The market for credit naturally fails for the poor
- Lack of collateral
- The incentive to repay is very limited for the poor
- (diminishing marginal utility)



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The functional impact of poverty II

• Poverty and Insurance:

- Should be verifiable
- Not subject to moral hazard
- But generally in DC formal insurance schemes are relatively rare

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The functional impact of poverty III

- Poverty and nutrition (Energy)
- Energy input, resting metabolism, energy required for work, storage and borrowing
- Nutrition and work capacity
- Poverty and household (unequal sharing of poverty) generally female, widows, elders.
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Conclusions

- Intrinsic and functional aspects of poverty and inequality;
- Lack access to markets such as credit, insurance, land, and labor;
- Moral hazard and incomplete information;

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