ECO.MIC18 Causes of Poverty and Inequality in Income and Wealth

AQA 7136 · Calculators not allowed · about 120 minutes

Total Marks

Name: ______________________________ Date: ____ / ____ / ______

Answer all questions. Full sentences are required for the extended data-response and essay questions. Time guidance: 120 minutes overall.

1 Multiple choice, UK context: Which of the following best describes 'absolute poverty' as used in UK poverty discussions?

- ☐ A A household income below a fixed international poverty line, e.g. USD 1.90 per day
- ☐ B Being unable to afford a basket of goods and services considered necessary for basic living standards in a given society
- ☐ C Having an income lower than 60% of the median household income in a country
- ☐ D Having less wealth than the average household

(Total for Question 1 is 1 mark)

2 Define the term 'wealth inequality' in the context of the distribution of assets and net worth among UK households.

(Total for Question 2 is 2 marks)

3 Explain how inheritance can contribute to wealth inequality in the UK today. Name the mechanism and give up to three distinct explanatory points.

(Total for Question 3 is 3 marks)

4 Explain how differences in educational attainment and skills gaps contribute to income inequality in the UK labour market. Give up to three distinct points.

(Total for Question 4 is 3 marks)

5 Explain how unemployment increases the likelihood of households falling into poverty in the UK. Provide up to three separate explanatory points.

(Total for Question 5 is 3 marks)

6 Explain how discrimination in hiring and pay can contribute to income inequality in the UK. Give up to three distinct explanatory points.

(Total for Question 6 is 3 marks)

7 Explain how unequal ownership of assets, other than inheritance, contributes to wealth inequality in the UK, naming three distinct mechanisms.

(Total for Question 7 is 3 marks)

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8 Explain how the gender pay gap contributes to income and wealth inequality in the UK. Give up to three distinct explanatory points.

(Total for Question 8 is 3 marks)

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9 Explain how the government tax and benefit system can affect the distribution of income through pre-distribution and post-distribution mechanisms. Provide up to four distinct points.

(Total for Question 9 is 4 marks)

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10 Data table: Household disposable income by decile in a fictional UK region. Decile 1 (poorest) = 8, Decile 2 = 12, Decile 3 = 15, Decile 4 = 18, Decile 5 = 21, Decile 6 = 24, Decile 7 = 28, Decile 8 = 34, Decile 9 = 45, Decile 10 (richest) = 95. Using this table of household disposable incomes by decile, explain how the data show there is substantial income inequality in this region. Use the data in your answer. (9 marks)

(Total for Question 10 is 9 marks)

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11 Explain how regional disparities in employment and earnings across the UK can contribute to national income inequality. Give up to three distinct points.

(Total for Question 11 is 3 marks)

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12 Discuss which single cause of income or wealth inequality is most significant in the UK today, evaluating competing causes and reaching a supported judgement. Use analysis, evidence and considerations of magnitude, time period and who gains or loses. Draw any diagram you find helpful and explain what it would show. (15 marks)

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(Total for Question 12 is 15 marks)

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13 Explain how automation and technological change can increase income inequality in the UK labour market. Give up to four distinct points.

(Total for Question 13 is 4 marks)

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14 Explain how a higher statutory minimum wage might reduce income inequality in the UK, giving up to four distinct points.

(Total for Question 14 is 4 marks)

Mark scheme · ECO.MIC18 Causes of Poverty and Inequality in Income and Wealth

Question 1

- **B1** Option B: inability to afford a basic basket of goods and services in a given society, describing absolute poverty in a domestic context
- **Answer: B**

Question 2

- **B1** the unequal distribution of stock variables such as financial assets, property, pensions and other forms of net worth across households
- **B1** it focuses on differences in accumulated assets rather than income flows
- **Answer: Wealth inequality is the unequal distribution of assets and net worth (property, savings, pensions) across households, focusing on accumulated stock rather than income flows.**

Question 3

- **B1** inheritance transfers accumulated assets from one generation to another, giving recipients a head start in wealth accumulation
- **B1** those born into wealthier families receive larger inheritances, so wealth tends to be concentrated within particular families and social groups
- **B1** inheritance can fund home ownership and investment that generate further returns, compounding intergenerational inequality
- **Answer: Inheritance passes accumulated assets to heirs, concentrates wealth within families, and funds investments such as housing that generate further returns, compounding inequality.**

Question 4

- **B1** higher educational attainment and skills increase human capital, raising workers' productivity and enabling higher wages
- **B1** individuals from disadvantaged backgrounds often have lower access to quality education, leading to persistent wage gaps across cohorts
- **B1** skills shortages in high-paying sectors raise returns to those with relevant skills, widening income differences between skill groups
- **Answer: Better education raises productivity and wages, unequal access to quality education produces persistent wage gaps, and sectoral skills shortages increase returns to certain skills, widening income inequality.**

Question 5

- **B1** loss of earned income reduces household resources, making it harder to afford essentials and raising the risk of poverty
- **B1** long-term unemployment can deplete savings and reduce future earning potential via skill depreciation, increasing persistent poverty risk
- **B1** unemployment can increase reliance on means-tested benefits, which may not fully replace lost earnings and so leave households below poverty thresholds
- **Answer: Unemployment cuts earned income, long-term joblessness depletes savings and skills, and incomplete benefit replacement can leave households in poverty.**

Question 6

- **B1** employers discriminating on the basis of race, gender, age or disability may offer lower wages or fewer promotion opportunities to affected groups
- **B1** discrimination reduces labour market access and career progression for some groups, leading to persistent income gaps between groups
- **B1** reduced earnings and lower lifetime accumulation of wealth due to discrimination compound across generations, reinforcing broader inequality
- **Answer: Discrimination reduces pay and promotion opportunities for some groups, limits labour market access and progression, and compounds lifetime and intergenerational inequality.**

Question 7

- **B1** ownership of property is concentrated among older and wealthier households, giving them capital gains and rental income that increase wealth
- **B1** ownership of financial assets such as stocks and pensions is skewed towards higher-income groups, generating returns that widen wealth gaps
- **B1** differences in access to tax-favoured savings vehicles or investment advice allow some households to accumulate wealth faster than others
- **Answer: Concentrated property ownership gives capital gains and rental income, financial asset ownership yields returns skewed to richer households, and unequal access to tax-favoured savings and advice speeds wealth accumulation for some.**

Question 8

- **B1** a persistent gender pay gap means women on average earn less over their working lives, reducing lifetime incomes and pension accumulation
- **B1** occupational segregation and part-time work patterns often lower womens' average pay and opportunities for career progression
- **B1** lower earnings translate into lower savings and asset accumulation, so the gender pay gap contributes to wealth as well as income inequality
- **Answer: The gender pay gap reduces womens' lifetime earnings and pensions, is reinforced by occupational segregation and part-time patterns, and leads to lower savings and asset accumulation.**

Question 9

- **B1** pre-distribution refers to policies that shape market incomes before taxes and benefits, for example education, minimum wage laws and labour market regulation
- **B1** pre-distribution can reduce inequality by improving skills, bargaining power and market wages for lower-paid workers
- **B1** post-distribution refers to redistributive taxes and benefits, e.g. progressive income tax and means-tested benefits, which alter disposable incomes after market earnings
- **B1** post-distribution can significantly reduce measured income inequality but may have trade-offs, such as work incentives or fiscal cost
- **Answer: Pre-distribution shapes market incomes via education, minimum wages and regulation to reduce inequality, while post-distribution uses progressive taxes and benefits to redistribute disposable income, each with potential trade-offs.**

Question 10

- **Level 1** (1-5): Basic use of the data and limited analysis. Candidate makes simple statements about the distribution with limited numeric support or interpretation.
- **Level 2** (6-10): Clear use of the data with developed analysis. Candidate gives numerical comparisons, such as ratios or shares, and explains their significance for inequality.
- **Level 3** (11-15): This band is not applicable because the question is a 9-mark item. The levels above must tile the tariff for a 9-mark question. Please ignore this extraneous band if shown.
- **Indicative content:**
  - calculate simple ratios or shares: the richest decile (Decile 10) has income 95 while the poorest decile has 8, so Decile 10 is 11.9 times Decile 1 (95/8 = 11.875), showing very large disparities
  - show the gap in absolute terms: the difference between Decile 10 and Decile 1 is 87 units, far larger than differences between middle deciles, indicating skew
  - compare top quintile vs bottom quintile or top two deciles: top decile alone (95) is larger than the combined incomes of several poorer deciles, for example Deciles 1-4 sum to 8+12+15+18 = 53, which is much less than Decile 10 alone
  - note concentration at the top: Decile 9 and 10 are 45 and 95, together 140, compared with bottom five deciles 8+12+15+18+21 = 74, indicating wealth of top deciles outweighs many lower households
  - interpretation: such disparities imply unequal access to resources, potential differences in living standards, and potential policy implications for redistribution

Question 11

- **B1** regions with higher concentrations of high-paying industries generate higher average incomes compared with regions reliant on lower-paid sectors
- **B1** migration of skilled workers to prosperous regions can leave poorer areas with lower human capital and lower average wages, reinforcing regional inequality
- **B1** differences in local unemployment rates and access to full-time work mean households in some regions are more likely to experience low income and poverty
- **Answer: High-paying industry clusters raise regional averages, skilled migration and brain drain lower wages in poorer regions, and higher local unemployment increases poverty risk, all contributing to national inequality.**

Question 12

- **Level 1** (1-5): Basic identification and description of one or more causes. Limited analysis or evaluation. Argument is brief and lacks supporting evidence or a clear judgement.
- **Level 2** (6-10): Clear analysis of at least two causes with evidence and some evaluation. Consideration of magnitude and time period, and a tentative judgement that weighs competing factors.
- **Level 3** (11-15): Thorough analysis and evaluation of multiple causes, including distributional impacts, magnitude, timing and policy interactions. Includes a clear, well-supported judgement and, if used, a correctly described diagram that adds analytical value.
- **Indicative content:**
    - possible causes to consider: inheritance and unequal asset ownership, differences in education and skills, discrimination, unemployment and labour market segmentation, tax and benefit policy (pre and post distribution), regional disparities, automation and technological change
    - analysis of magnitude: e.g. inheritance and housing wealth transfers can account for large shares of net wealth concentration, whereas wage inequality affects current incomes; discuss which is larger in the current UK context and over what time horizon
    - time period and persistence: inherited wealth and property gains have long-term intergenerational effects, while unemployment shocks can be temporary; assess sustained versus cyclical causes
    - who gains and who loses: asset owners, older cohorts and those with high skills tend to gain from property and financial asset appreciation; low-skilled, young or disadvantaged groups lose out
    - policy interactions: tax and benefit systems can mitigate or exacerbate outcomes; pre-distribution policies such as education affect market incomes, while post-distribution taxation and benefits alter disposable incomes
    - diagram suggestion: a simple distribution diagram showing two income distributions or a labelled supply-and-demand style sketch to show how skills shortages raise returns to certain workers; explain axes, shifts and what the diagram implies for inequality
    - evaluation: consider measurement issues, trade-offs such as incentives, administrative feasibility, and evidence from recent UK trends, concluding which cause is judged most significant with justification

Question 13

- **B1** automation can substitute for routine manual or cognitive jobs, reducing demand for lower and middle skilled workers and depressing their wages
- **B1** technological change increases demand for high-skilled workers with complementary skills, raising wage premiums for those workers
- **B1** wider returns to capital owners from technology-driven productivity gains increase wealth concentration if capital ownership is unequal
- **B1** the speed of change can outpace reskilling and education, creating structural unemployment and persistent inequality without effective policy responses
- **Answer: Automation reduces demand for routine jobs and wages for lower skilled workers, raises returns to high-skilled workers, increases returns to capital owners, and can outpace reskilling, all widening inequality.**

Question 14

- **B1** raising the minimum wage directly increases earnings for low-paid workers, reducing the gap between bottom incomes and median incomes
- **B1** higher wages can increase disposable income for low earners, reducing in-work poverty and improving ability to save
- **B1** a higher minimum wage can raise bargaining power and set a floor that compresses the lower tail of the wage distribution
- **B1** possible offsetting points to consider: potential employment effects if firms cut jobs, and the role of cost-push inflation which could partially offset real gains
- **Answer: A higher minimum wage raises low incomes, reduces in-work poverty and compresses the lower wage distribution, though possible employment or price effects need consideration.**