

Lecture 8

Ray, chapters 8, 9

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Note: Only beginning of lecture on slides. Rest using blackboard.

An interest in itself

- Suffering: hunger, social participation, illness, cold, heat etc.
- Capabilities (Sen)

Functional effects

- Savings rates
- Inefficiency
- Human capital

Poverty line

Threshold below which a person or household is at risk of being poor.

Evaluation of poverty measures

Policy based on measure should be meaningful.

- ① Transfer axiom: Transfer from someone with $y_i < p$ to someone with $y_j < p$ should decrease poverty measure.
- ② Monotonicity: $y_i < p$ and $\downarrow y_i$ should increase measure.

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

Poverty gap ratio

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

n: total population

m: mean income

Problem PGR low in overall wealthy societies with many poor people.

Poverty gap ratio

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

HC: poor population

Problem IGR: weight of a person increases linearly with the distance from p , which is inconsistent with concave utility.