Inequality

Measuring inequality, its causes in Australia, and policies to address it

How to use this guide

Information in this guide is colour-coded and labelled. Each coloured box carries a word label as well as a colour, so you can use it whether or not you distinguish the colours easily.

KEY DEFINITION	The precise meaning of a syllabus term. Learn the wording.
AUSTRALIAN CONTEXT	Real Australian evidence or data you can quote as examples.
WORKED EXAMPLE	A model, diagram or calculation worked through step by step.
COMMON MISTAKE	An error that commonly costs marks — check yourself against it.
EXAM TIP	How to turn the knowledge into marks in an exam response.
BRETTONOMICS INTERACTIVE	A matching interactive tool on brettonomics.com.

SECTION 1 Key concepts and terminology

Term	What it means
Income	A flow of money received over a period — wages, profit, rent, interest and transfer payments.
Wealth	A stock of assets held at a point in time, net of liabilities. Wealth is consistently distributed more unequally than income.
Absolute poverty	Lacking the income needed to afford the basic necessities of life, measured against a fixed subsistence standard.
Relative poverty	Having an income far below the typical income in a society, commonly defined as below 50% of median household income.
Transfer payments	Government payments to households that are not in return for production, such as pensions and unemployment benefits.
Welfare state	The system of government-provided income support and services intended to protect citizens against poverty and risk.

Term	What it means
Egalitarian society	A society in which income, wealth and opportunity are relatively evenly distributed.

COMMON MISTAKE

Income and wealth are not the same thing. Income is a flow measured over time; wealth is a stock measured at a moment. A retiree may have low income and substantial wealth. Confusing the two undermines any analysis of inequality.

IN ONE SENTENCE Inequality is measured on two distinct dimensions — the flow of income and the stock of wealth.

SECTION 2 Measuring inequality

2.1 The Lorenz curve

- Plots the cumulative share of income on the vertical axis against the cumulative share of households, ranked poorest to richest, on the horizontal axis.
- A 45-degree diagonal represents perfect equality, where each percentage of households receives the same percentage of income.
- The further the curve bows away from the diagonal, the more unequal the distribution.

2.2 The Gini coefficient

KEY DEFINITION

Reading the Gini coefficient

The measure. The Gini coefficient is the area between the Lorenz curve and the line of equality, divided by the total area beneath the line of equality.

The scale. 0 means perfect equality, where everyone receives the same. 1 means perfect inequality, where one household receives everything.

The limitation. A single number cannot show where in the distribution the inequality sits. Two very different distributions can share a Gini coefficient.

2.3 Other measures

- **Distribution shares:** quintile and decile shares, which show directly what proportion each fifth or tenth of households receives.
- **Mean versus median:** the mean is pulled upward by very high incomes, so the median is the better guide to the typical household.
- **Henderson poverty line:** an Australian benchmark estimating the income needed to avoid poverty, varying by household composition.

- **Equivalence scales:** adjust household income for size and composition, since larger households need more income for the same living standard.

AUSTRALIAN CONTEXT

Australian distribution, ABS 2019–20. The Gini coefficient was 0.324 for equivalised disposable household income and 0.611 for household net worth.

Income shares. The highest quintile received 39.8% of total income; the lowest quintile received 7.4%.

Wealth shares. The highest quintile held 62.8% of total household wealth; the lowest quintile held 0.7%.

The pattern to note. Wealth is far more unequally distributed than income — roughly double the Gini — which is the single most quotable fact in this case option.

COMMON MISTAKE

These are still the most recent official figures — and that is the point. The 2019–20 Survey of Income and Housing remains the latest ABS source for these distributions. The 2020–21 and 2021–22 collections were cancelled because of COVID-19, and in 2025 the ABS announced it would not publish the 2023–24 results at all, citing shortcomings in questionnaire design and data collection it could not overcome. The next results, from the 2025–26 survey, are expected from mid-2027.

Do not present them as current. Write "in 2019–20, the most recent ABS survey data" rather than "currently". Quoting a six-year-old figure as though it were today's will cost you marks; naming the year and noting the gap will earn them.

Use the gap as an evaluation point. A policy debate running on data this old is itself worth a sentence. Wealth inequality in particular is sensitive to house prices and superannuation balances, both of which moved considerably after 2019–20, so the true current position is uncertain in a way the single coefficient conceals.

EXAM TIP

Quote a share, not just a Gini. Saying "the top fifth holds nearly 63% of wealth while the bottom fifth holds under 1%" is far more persuasive than a bare coefficient, and shows you can interpret a distribution.

BRETTONOMICS INTERACTIVE

Lorenz Curve — plot the distribution, see the curve bow away from the line of equality, and read off the Gini coefficient
brettonomics.com/lorenz-curve

IN ONE SENTENCE The Lorenz curve shows the shape of inequality; the Gini summarises it in one number, losing the detail.

SECTION 3 Causes of inequality in Australia

3.1 Labour market causes

- **Educational attainment:** higher qualifications are associated with higher lifetime earnings.
- **Employment status:** unemployment and underemployment are among the strongest predictors of low income.
- **Occupation and industry:** earnings differ substantially across industries and skill levels.
- **Age:** earnings typically rise through working life and fall in retirement, so some measured inequality reflects life stage rather than lasting disadvantage.

3.2 Structural and household causes

- **Uneven distribution of factors of production:** ownership of capital, land and business assets is concentrated, and asset income compounds.
- **Family structure:** sole-parent and single-income households have lower income per person.
- **Geography:** housing costs and access to employment differ sharply between regions.
- **Intergenerational transmission:** parental income and wealth strongly influence children's educational and economic outcomes.

3.3 Groups experiencing particular disadvantage

- The syllabus asks students to consider factors affecting particular groups, including Aboriginal and Torres Strait Islander peoples, migrants, and people living with disability.
- **Common mechanisms:** lower average employment rates, lower median incomes, and reduced access to services in remote areas all contribute to persistent gaps.
- A gender pay gap persists in Australia, reflecting occupational segregation, differences in hours worked, and interrupted workforce participation associated with unpaid caring work.

> EXAM TIP
>
> **Explain the mechanism, not just the gap.** Identifying that a gap exists earns little. Marks come from explaining how it arises — through employment rates, hours, occupational composition, educational access or asset ownership — and then linking that to an appropriate policy response.

> IN ONE SENTENCE Most inequality traces to differences in employment, education and asset ownership, compounded across generations.

SECTION 4 Consequences of inequality

4.1 Private costs

- Lower living standards, housing stress and food insecurity for affected households.
- Reduced access to education and training, which limits future earning capacity.
- Poorer long-term outcomes for children in low-income households.

4.2 Social costs

- Lost productive potential where talent is not developed because of restricted opportunity.
- Higher demands on income support, health and justice systems.
- Weaker aggregate demand, since lower-income households have a higher marginal propensity to consume — concentrating income at the top can reduce total spending.
- Reduced social cohesion and political stability where disadvantage becomes entrenched.

4.3 The efficiency argument for some inequality

- Differences in reward provide incentives to work, study, take risks and innovate.
- Compressing all incomes would weaken those incentives, which is why the policy question is the degree of inequality rather than its existence.

KEY DEFINITION

Equity versus efficiency

The equity–efficiency trade-off. Redistribution improves equity but can blunt incentives to work and invest, so some output may be forgone.

Okun's leaky bucket. Transferring income from rich to poor loses some of it along the way, through administration and weakened incentives.

The counter-argument. Some redistribution raises efficiency — educating a capable child from a poor household adds to productive capacity rather than subtracting from it.

IN ONE SENTENCE Some inequality sustains incentives; entrenched inequality wastes human potential.

SECTION 5 Government strategies to address inequality

5.1 Taxation

- Progressive income tax takes a rising share of income as income increases, reducing inequality of disposable income.
- Indirect taxes such as the GST are regressive, because lower-income households spend a larger share of their income.
- Capital gains and superannuation concessions affect the distribution of wealth, and are a recurring focus of reform debate.

5.2 Transfer payments

- Age pensions, disability support, unemployment benefits and family payments provide a floor below which income does not fall.
- Means testing targets support to those most in need, but creates effective marginal tax rates as payments withdraw against earnings.

5.3 Merit goods and services

- Public education and health reduce inequality of opportunity as well as of outcome, and build productive capacity.
- Childcare subsidies support workforce participation, particularly for women, addressing a structural cause rather than only the symptom.

5.4 Labour market measures

- A minimum wage sets a floor on hourly pay — a price floor in the labour market, which supports low-paid workers but may reduce hours demanded at the margin.
- Training and reskilling programs address occupational immobility, which is a cause of persistent low income.

WORKED EXAMPLE

Showing redistribution on a Lorenz diagram

1. Draw the initial Lorenz curve. Plot cumulative income share against cumulative households for market income, bowed away from the diagonal.

2. Apply taxes and transfers. Progressive tax reduces the top share; transfers raise the bottom share.

3. Draw the new curve. The post-redistribution curve lies closer to the line of equality at every point.

4. State the effect on the Gini. Because the area between the curve and the diagonal has shrunk, the Gini coefficient falls.

5. Note the limit. The curve cannot reach the diagonal without eliminating all income differences, which would remove work incentives entirely.

IN ONE SENTENCE Taxes and transfers narrow the distribution; education and participation measures address why it was wide.

SECTION 6 Evaluating redistribution

6.1 Criteria

- **Targeting:** does the policy reach the households it is intended to help?
- **Effectiveness:** does it reduce measured inequality or poverty?
- **Efficiency cost:** what output is forgone through weakened incentives or administrative cost?
- **Durability:** does it address a cause or only compensate for a symptom?

6.2 Intended and unintended consequences

- Means testing can create high effective marginal tax rates, so additional earnings deliver little extra disposable income — a poverty trap.
- A minimum wage set well above the market-clearing wage may reduce hours offered to the least experienced workers.
- Broad concessions intended to assist middle-income households can disproportionately benefit those with the most assets.

EXAM TIP

Distinguish opportunity from outcome. Policies addressing inequality of opportunity — education, health, early childhood — can raise efficiency and equity together. Policies addressing inequality of outcome face the trade-off more sharply. Saying which kind you are evaluating is a mark of a strong response.

IN ONE SENTENCE The question is never whether to redistribute, but how much, to whom, and at what cost to incentives.

ASSESSMENT Multiple choice questions

20 questions covering Unit 2 Topic 2 Case option C. Answers and explanations follow the question set.

Question 1

The key difference between income and wealth is that:

A. Income is a flow received over a period, while wealth is a stock of assets held at a point in time
B. Income includes assets while wealth includes only cash
C. Wealth is always distributed more equally than income
D. Income is measured before tax and wealth after tax

Question 2

A Lorenz curve plots:

A. Income against time for a typical household
B. The unemployment rate against the inflation rate
C. Government spending against tax revenue
D. Cumulative share of income against cumulative share of households ranked from poorest to richest

Question 3

A Gini coefficient of 0 indicates:

A. Perfect inequality, with one household receiving all income
B. That the Lorenz curve lies on the horizontal axis
C. Perfect equality, with every household receiving an identical share of income
D. That no reliable income data exists

Question 4

In 2019–20 the ABS reported Australia's Gini coefficient for household net worth as:

A. 0.324, the same as the figure for disposable income
B. 0.611, nearly double the figure for disposable income
C. 0.100, indicating a highly equal distribution
D. 0.950, indicating near-perfect inequality

Question 5

Relative poverty is usually defined as:

A. Having income below a set proportion of the median household income, commonly 50%
B. Lacking the income to afford basic subsistence needs
C. Having no assets of any kind
D. Earning less than the statutory minimum wage

Question 6

The median is often preferred to the mean when describing typical household income because:

A. The median is always higher than the mean
B. The mean cannot be calculated from survey data
C. The median adjusts automatically for household size
D. The mean is pulled upward by a small number of very high incomes

Question 7

Equivalence scales are used to:

A. Convert nominal income into real income
B. Adjust household income for the size and composition of the household
C. Compare income across different countries
D. Measure the value of unpaid household work

Question 8

Which is the strongest single predictor of low household income in Australia?

A. The age of the oldest household member
B. The state or territory of residence
C. Unemployment or underemployment of household members
D. Whether the household rents or owns outright

Question 9

Some measured income inequality reflects age rather than lasting disadvantage because:

A. Earnings typically rise through working life and fall in retirement
B. Older workers are always paid less than younger workers
C. Retirees are excluded from income surveys
D. Age pensions are not counted as income

Question 10

The uneven distribution of factors of production contributes to inequality because:

A. Labour is the only factor that earns a return
B. Governments own most productive assets
C. Capital earns the same return as labour in all markets
D. Ownership of capital and land is concentrated, and income from assets compounds over time

Question 11

Progressive income taxation reduces inequality of disposable income because:

A. It applies the same rate of tax to every taxpayer
B. It exempts all income from taxation below the median
C. The average rate of tax rises as income rises, taking proportionately more from higher earners
D. It taxes consumption rather than income

Question 12

The GST is regressive because:

A. The rate of GST rises with the value of the purchase

B. Lower-income households spend a larger share of their income, so the tax takes a larger proportion of it

C. High-income households are exempt from paying it

D. It applies only to luxury goods

Question 13

A poverty trap arises when:

A. Means-tested payments withdraw as earnings rise, so additional work yields little extra disposable income

B. Transfer payments are set below the poverty line

C. The minimum wage rises faster than inflation

D. Households are unable to obtain credit

Question 14

Okun's "leaky bucket" describes:

A. The tendency of wealth to concentrate over time

B. The gap between mean and median income

C. The decline in transfer payments during a boom

D. The loss of some resources during redistribution through administration and weakened incentives

Question 15

Which policy most directly addresses inequality of opportunity rather than outcome?

A. Raising the rate of the age pension

B. Increasing the top marginal rate of income tax

C. Public funding of education and early childhood services

D. Providing one-off cost-of-living payments

Question 16

A minimum wage is best understood in economic terms as:

A. A price floor in the labour market

B. A price ceiling in the labour market

C. A transfer payment funded by government

D. A subsidy paid to employers

Question 17

Lower-income households having a higher marginal propensity to consume implies that:

A. Redistribution always reduces total economic output

B. Concentrating income at the top can weaken aggregate demand

C. Higher-income households spend a larger share of each extra dollar

D. Transfer payments have no multiplier effect

Question 18

When using data on inequality, the syllabus requires students to:

A. Use only data produced by the ABS

B. Avoid comparing Australia with other countries

C. Present data without interpretation

D. Examine the underlying assumptions and perspectives of the source

Question 19

A government chooses between raising the rate of unemployment benefit and expanding free childcare. Which comparison is most economically relevant?

A. Childcare is cheaper to administer than income support

B. Income support is always more politically popular

C. Income support relieves immediate hardship, while childcare addresses a structural barrier to participation and may raise capacity

D. Only one of the two affects the Gini coefficient

Question 20

Which statement best reflects a balanced evaluation of redistribution?

A. All inequality is inefficient and should be eliminated

B. Some inequality preserves incentives, but entrenched inequality wastes productive potential, so the question is the degree and design of redistribution

C. Redistribution never affects economic incentives

D. Inequality should be judged solely by the Gini coefficient

ASSESSMENT

Marking guide

Answer key

Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10
A	D	C	B	A	D	B	C	A	D
Q11	**Q12**	**Q13**	**Q14**	**Q15**	**Q16**	**Q17**	**Q18**	**Q19**	**Q20**
C	B	A	D	C	A	B	D	C	B

Explanations

Q1 **A** The flow/stock distinction is fundamental. In Australia wealth is distributed far more unequally than income.

Q2 **D** The diagonal represents perfect equality; the further the curve bows below it, the greater the inequality.

Q3 **C** The Gini runs from 0 (perfect equality) to 1 (perfect inequality).

Q4 **B** Income Gini was 0.324 and wealth Gini 0.611, confirming wealth is distributed far more unequally than income.

Q5 **A** Relative poverty is measured against the society's typical income; absolute poverty is measured against a fixed subsistence standard.

Q6 **D** A right-skewed distribution lifts the mean above the median, so the median better represents the typical household.

Q7 **B** A $100,000 income supports a very different living standard for one person than for a family of five.

Q8 **C** Employment status is the dominant driver, which is why labour market policy is central to inequality policy.

Q9 **A** Life-cycle effects mean a snapshot of income overstates lifetime inequality to some degree.

Q10 **D** Asset ownership generates income that accumulates, which is why wealth inequality exceeds income inequality.

Q11 **C** A rising average rate narrows the gap between gross and disposable incomes across the distribution.

Q12 **B** A flat rate on spending becomes regressive once saving rates differ across the distribution.

Q13 **A** The combination of tax and payment withdrawal produces high effective marginal tax rates, weakening work incentives.

Q14 **D** The metaphor captures why redistribution has an efficiency cost, not that it should be avoided.

Q15 **C** Opportunity measures build future earning capacity; the others compensate for current outcomes.

Q16 **A** Set above the market-clearing wage it raises pay for those employed but may reduce hours demanded at the margin.

Q17 **B** A dollar transferred to a household with a higher MPC generates more spending, which is the demand-side argument for targeted support.

Q18 **D** Choices about equivalence scales, income definitions and reference periods all shape the reported result.

Q19 **C** The distinction between compensating for an outcome and removing a cause is the core evaluative judgement here.

Q20 **B** The mature position recognises both the incentive role of differential reward and the efficiency cost of entrenched disadvantage.