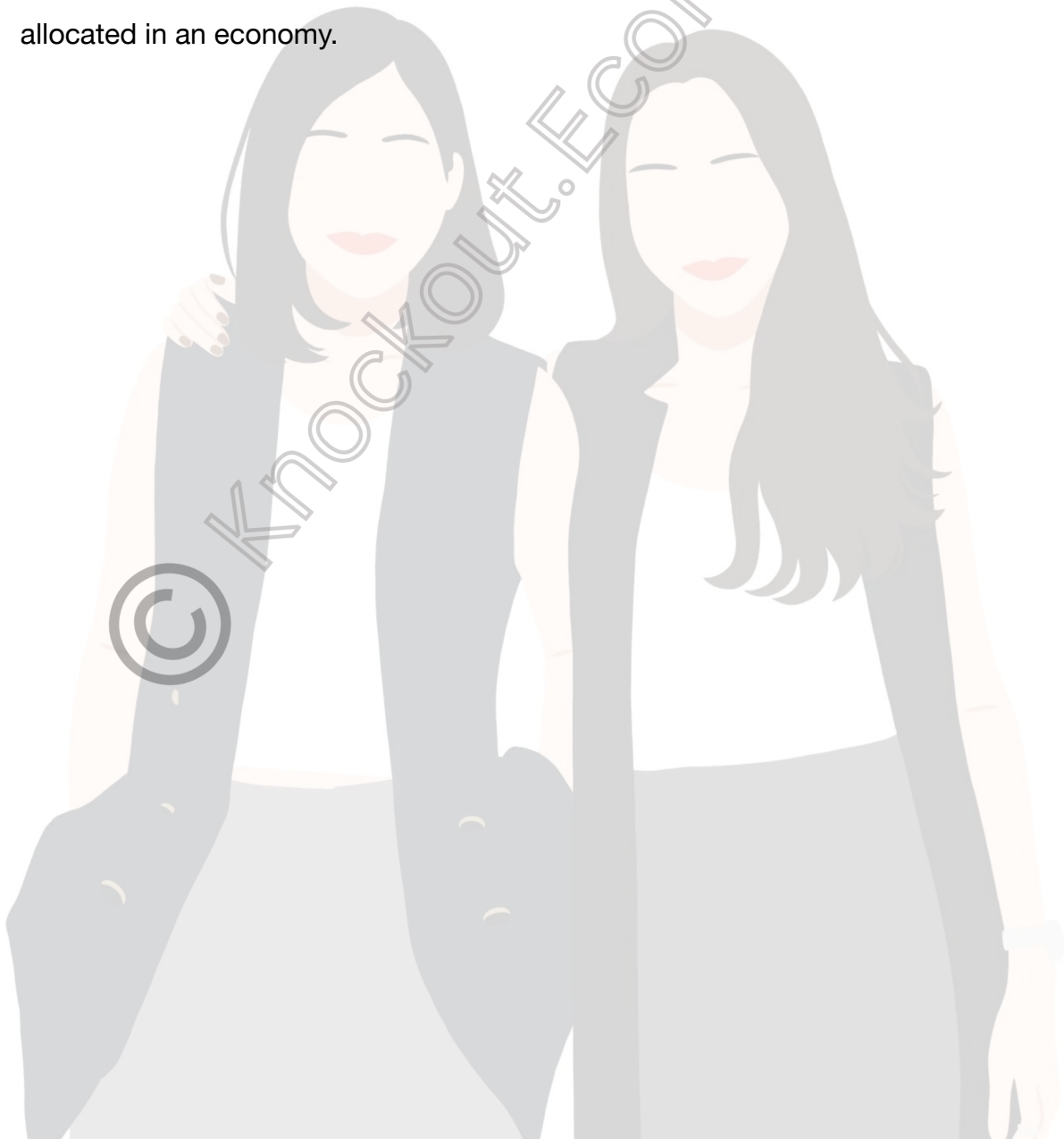


Chapter 32

Poverty

Key terms

1. Absolute poverty : occurs when individuals are not able to consume sufficient necessities to maintain life. In practice, this means individuals are hungry and suffer malnutritions. (They may not have enough food to live and grow)
2. Relative Poverty : Poverty which is defined relative to existing living standards for the average individuals; measurement of relative poverty often focuses on how the poorest incomes compare with the median household income in a country
3. Child mortality: the number of children who die.
4. Structural changes in the economy: any basic changes in the way resources are allocated in an economy.



1. Meaning and measures of absolute poverty

Absolute poverty : occurs when individuals are not able to consume sufficient necessities to maintain life. In practice, this means individuals are hungry and suffer malnutritions. (They may not have enough food to live and grow)

2. The multidimensional poverty index (MPI)

- MPI was developed in 2010 by the Oxford Poverty & Human Development Initiative (OPHI) and the United Nations Development Programme and uses different factors to determine poverty beyond income-based lists.
- MPI measures the percentage of the population that is multidimensionally poor. It uses data for health, education and the standard of living to provide an index number scoring.
- The MPI value will be between 0 and 1. The higher this value, the higher the poverty.

3. Meaning and measures of relative poverty

- If there is inequality in society, there will be relative poverty, but not necessarily absolute poverty. Relative poverty exists in all economies, whether they are high, middle or low-income economies.
- There is no exact accepted measure of relative poverty. However, there are two common ways of attempting to measure it.

3.1 Median household income

- Median household income is the level of income the middle household would receive.

3.2 Considering on what goods or services people might have to buy their country in order not to be considered poor.

- If poor people cannot afford to buy a minimum acceptable basket of goods and services for the society in which they live.

4. Causes of changes in absolute and relative poverty

4.1 Economic growth

- Absolute poverty tends to fall as GDP rises.
- There is no clear relationship of GDP and relative poverty.

4.2 Education and training

- Education is likely to reduce absolute poverty and relative poverty.

4.3 Welfare benefits

- Welfare benefits are government financial helps for poors to be able to afford the minimum basket of goods and services,
- It is likely to reduce absolute poverty.

4.4 Changes in tax structure

- Progressive tax such as income tax can reduce income inequality.
- Regressive tax such as indirect tax, mainly falls on low income earners, resulting wider income inequality.
- Government can raise tax revenue to help poors, then poverty falls.

4.5 Structural changes in the economy

- Structural changes in the economy: any basic changes in the way resources are allocated in an economy.
- Informal jobs are the main sources of income for poor.
- Economic growth can increase formal jobs which have greater impact on reducing poverty.

4.6 Foreign aid

- Foreign aid is the voluntary transfer of resources from one country to another country in the form of money, goods and services.
- Foreign aid can reduce poverty.

4.7 Civil wars and conflict

- Civil wars and conflict can cause people to lost their wealth and this can increase poverty.