

IT2 Poster Session

Claudia Biancotti (Bank of Italy, Economic Research Department) “*A dual regime utility model for poverty analysis*”

Abstract

This paper offers a micro-founded general definition of poverty set in the context of utility theory. Poverty and non-poverty are described as two structurally different types of local non-satiation: the former entails a strong need for further consumption and social marginalization, the latter is characterized by a weak need for further consumption and satisfactory adjustment to social expectations. Each of the states can be fully described by a separate technology of utility production. The model is tested on data from the Bank of Italy's Survey of Household Income and Wealth; an indicator of self-reported economic satisfaction is regressed on yearly consumption of food and non-food commodities. The predictions of the model are confirmed in the case of food consumption, signalling the existence of physiological minima that are uniformly perceived by individuals. For non-food commodities, no significant change of regimes is found: welfare appears to be connected with needs that are less exposed to structural variation, possibly because they are not as urgent or objective as food-related ones.

Aitor Calo-Blanco (Universidad de Alicante) “*Equality of Opportunity and Incomplete Information*”

Abstract

Many papers dealing with Social Evaluation an Equal Opportunity have been published lately. These papers want to measure and rank the welfare evaluation of income and opportunity. Most of those papers are based on the fact that the final income is a monotone increasing function of effort. We argue that such an assumption might be quite strong in some cases. What we do in this piece of work is to drop that axiom. If this assumption is dropped it would not be possible to identify the individual's responsibility with her final income any longer. Therefore, the conclusions obtained in previous models might be not so appealing anymore. We use a principal-agent model to try to model a framework of repeated allocation of public funds in which the planner cannot infer exactly the type of every agent after each period. Finally, we propose a learning process that might help the planner to solve the problem of lack of information. We check if it is possible for the principal to reach a separating equilibrium according agents' characteristics.

Koen Decancq (K.U.Leuven) “*The Evolution of World Inequality in Well-being*” (joint work with André Decoster and Erik Schokkaert)

Abstract

In this paper we investigate the evolution of the inequality in well-being across different countries between 1975 and 2000. We treat well-being as a multidimensional concept focusing on three important dimensions of life: standard of living, health and education. Inequality in the three dimensions shows a different trend between 1975 and 2000. We propose a flexible measure of well-being and use the tools offered by the recent literature on multidimensional inequality measurement to quantify the evolution of overall intercountry well-being inequality. The empirical results are nuanced, and sensitive to different normative choices on the trade-offs between the different dimensions. Especially the concave transformation of income turns out to be decisive for the evolution of world inequality in well-being.

Filippo Gregorini (Università Cattolica del Sacro Cuore, Milan) “*Political geography and income inequalities*”.

Abstract

This paper studies the effect of the introduction of income inequalities in a model of geopolitical organization. We assume the existence of two groups of agents with different incomes. We focus on the effects of changes in income differential between the groups and changes in the fraction of the population belonging to the two groups. In the optimal solution, if size is endogenous and public good provision exogenous size increases as income inequality increases; if both size and public good provision are endogenously determined size is neutral to changes in income inequalities and public good provision decreases as inequality increases. There are cases where a stable solution does not exist and the possibility of non existence increases together with inequality, if both size and public good provision are endogenously determined.

Sarolta Laczo (Grenoble-Université de Toulouse) “*Risk Sharing with Limited Commitment*”

Abstract

This paper considers an economy where idiosyncratic shocks are insured by informal arrangements. Informal insurance is characterized by limited commitment, that is, contracts have to be self-enforcing. I have in mind small, rural communities in developing countries, where formal insurance contracts are not available. However, applications may include risk sharing between husband and wife within a household, or debt contracts between countries. The paper explains how the model of risk sharing with limited commitment can be solved using numerical dynamic optimization, following Attanasio and Ríos-Rull (2000), Ligon et al. (2002), and others. Later we look at some simulated examples with additional heterogeneity, in particular, households may differ in their risk aversion. In a first example we compare two environments with different amount of risk. The second example allows households to choose between two technologies.

María Ana Lugo (Oxford University) “*Measuring Inequality of Well-Being: A proposal based on a Multidimensional Gini Index*” (joint with Koen Decancq)

Abstract

Individual well-being is inherently a multidimensional concept. An attempt to measure inequality in well-being should take this multidimensionality explicitly into account. In this paper we follow a normative procedure to derive a measure of well-being inequality from its underlying multidimensional social evaluation function. The social evaluation function itself is characterized by an explicit two step approach. In a first step an index of individual well being is derived from a set of attractive properties. The second step aggregates the individual well-being indices into a measure of societal well-being. Hereby we introduce a new property that allows the evaluation of well-being to depend both on its level and on the levels of other individuals in the society. We investigate the role of different generalizations of the Pigou-Dalton transfer principle in this context. Moreover we investigate the sensitivity of our index to changes in the correlation between the dimensions. Different indices of well being inequality can easily be derived from the obtained multidimensional social evaluation function.

Magne Mogstad (Research Department, Statistics Norway) “*On the Definition and Measurement of Chronic Poverty*” (joint with Rolf Aaberge)

Abstract

As an alternative to the conventional methods for measuring chronic poverty, this paper proposes to use an interpersonal comparable measure of permanent income as a basis for defining and measuring chronic poverty. This approach accounts for the fact that individuals may prefer to undertake inter-period income transfers. Moreover, the approach allows for individual-specific interest rates on borrowing and saving as well as for the presence of liquidity constraints. Due to the general nature of the proposed method, it proves useful for evaluating the theoretical basis of the standard methods for measuring chronic poverty.

Angelica Salvi Del Pero (University of Milan) “*Measuring inequality of opportunity in a developing country*”

Abstract

Income inequality has risen to the top of the social agenda in many countries, as an increase of inequality at both the global and the national level in many countries has been observed. Several scholars have proposed looking at inequality of opportunities, rather than just outcomes, to better understand the processes underlying income inequality. Inequality of opportunity is the component due to differences in circumstances outside individual control while inequality in effort is the component due to those factors the individual is responsible for. Despite the obvious importance of the concept of inequality of opportunity, limited empirical work has been done in this area.

The aim of this paper is to measure the portion of outcome of inequality due to inequality of opportunity in Nepal. Empirical strategies considered here are those by Checchi and Peragine (2004) and by Bourguignon, Ferreira, and Menéndez (2003). The application of the proposed analytical tools to least developed countries cannot simply follow the empirical model already applied to developed countries as, besides a careful choice of characteristics and effort variables, it requires a thoughtful choice of the outcome variable, which - in turn - yields consequences in terms of choice of the empirical method.