

Inequality in a Dynamic Perspective

Fifth Winter School on Inequality and Social Welfare Theory

Lecture on “Distributions in Motion: Growth and the dynamics of poverty and inequality”

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Summary: Income distributions move over time. As they do so, we observe changes in their means, dispersion and in the shape and mass of the lower tail. This lecture will present an integrated approach to measuring and analyzing economic growth and changes in poverty and inequality, based upon *growth incidence curves*. A number of existing approaches to decomposing changes in wage or income distributions is reinterpreted in terms of counterfactual growth incidence curves. The relationship between these approaches and a generalization of the Oaxaca-Blinder method is discussed. Extensions of the same basic framework also permit modeling and simulating the effects of policy changes on the distribution. Both partial and general equilibrium applications are discussed, with due attention paid to their challenges and limitations.

Reading List:

Bourguignon, François, Maurizio Bussolo and Luiz Pereira da Silva. 2008. *The impact of macroeconomic policies on poverty and income distribution*. Washington, DC: The World Bank and Palgrave MacMillan. (Chapters 2, 4 & 5)

Bourguignon, François, Francisco Ferreira and Phillippe Leite. 2003. “Conditional Cash Transfers, Schooling and Child Labor: Micro-Simulating Brazil’s Bolsa Escola Program”. *World Bank Economic Review* **17** (2): 229-254.

Bourguignon, François, Francisco Ferreira and Phillippe Leite. 2008. “Beyond Oaxaca-Blinder: Accounting for differences in household income distributions”. *Journal of Economic Inequality* **6**: 117-148.

Bourguignon, Francois, Francisco Ferreira, and Nora Lustig. 2005. *The Microeconomics of Income Distribution Dynamics*. New York: World Bank and Oxford University Press. (Chapters 2 & 4)

DiNardo, John, Nicole Fortin and Thomas Lemieux. 1996. “Labor Market Institutions and the Distribution of Wages, 1973-1992: A Semi-Parametric Approach”, *Econometrica*, **64** (5): 1001-1044.

Kraay, Aart. 2006. “When is Growth Pro-Poor? Evidence from a panel of countries”. *Journal of Development Economics* **80** (1): 198-227.

Ravallion, Martin and Shaohua Chen. 2003. “Measuring Pro-Poor Growth”. *Economics Letters* **78**: 93-99.

Todd, P., and K. Wolpin. 2006. “Assessing the Impact of a School Subsidy Program in Mexico: Using a Social Experiment to Validate a Dynamic Behavioral Model of Child Schooling and Fertility.” *American Economic Review* **96** (5): 1384-1417.