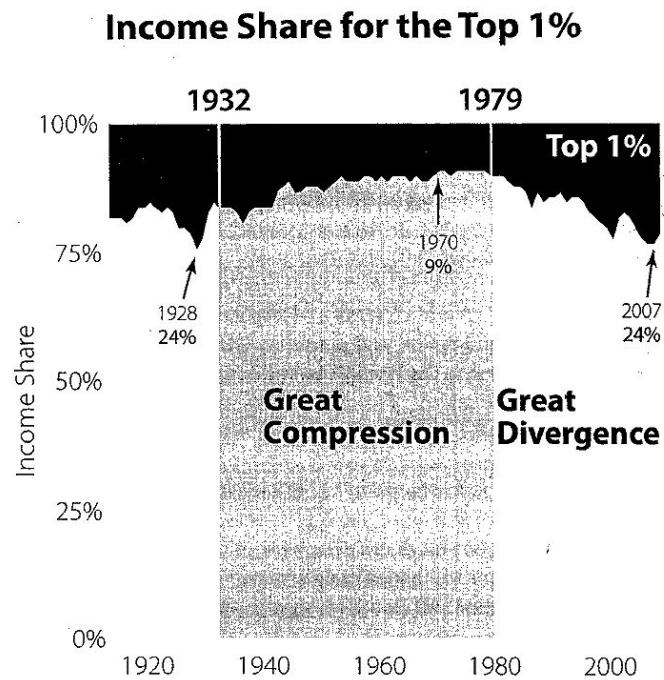# Second Examination POLS 4635
# The Politics of Income Inequality

21 October 2016

Professor Poole

PLEASE KEEP YOUR ANSWERS *SHORT AND SPECIFIC* TO ALL QUESTIONS

1. Below is a Figure from Chapter 1 of *The Great Divergence.* What is the importance of this figure?

Income Share for the Top 1%

1932   1979

Top 1%

100%

75%

1970
9%

1928
24%

2007
24%

Income Share

50%

**Great
Compression**

**Great
Divergence**

25%

0%
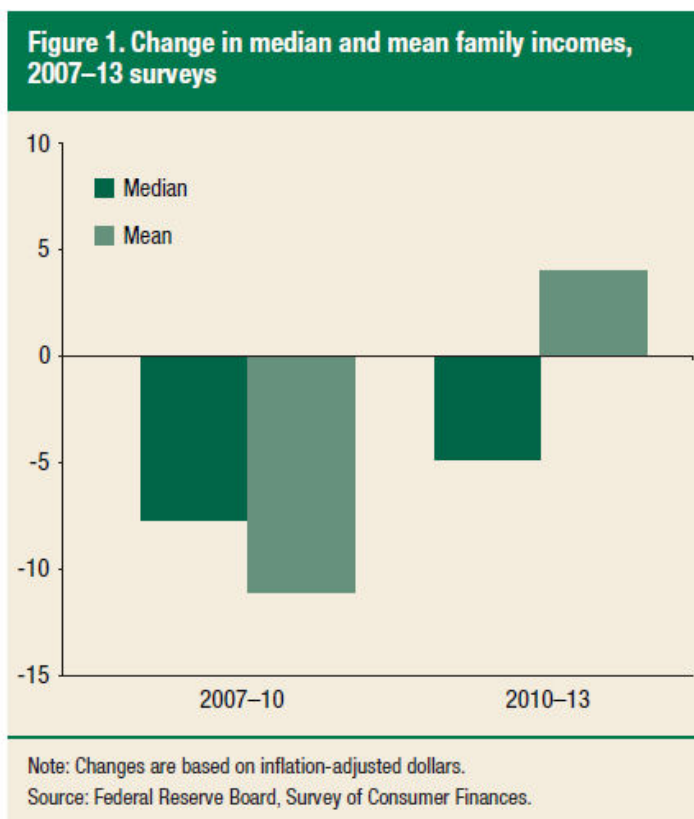
1920   1940   1960   1980   2000

Top 1 percent income share includes capital gains. Source: Facundo Alvaredo, Tony Atkinson, Thomas Piketty, and Emmanuel Saez, "The World Top Incomes Database."

**2. Summarize the important changes in the Party System that this figure illustrates?**

**Republican Percentage of Seats
in State Legislatures: 1946 - 2014**
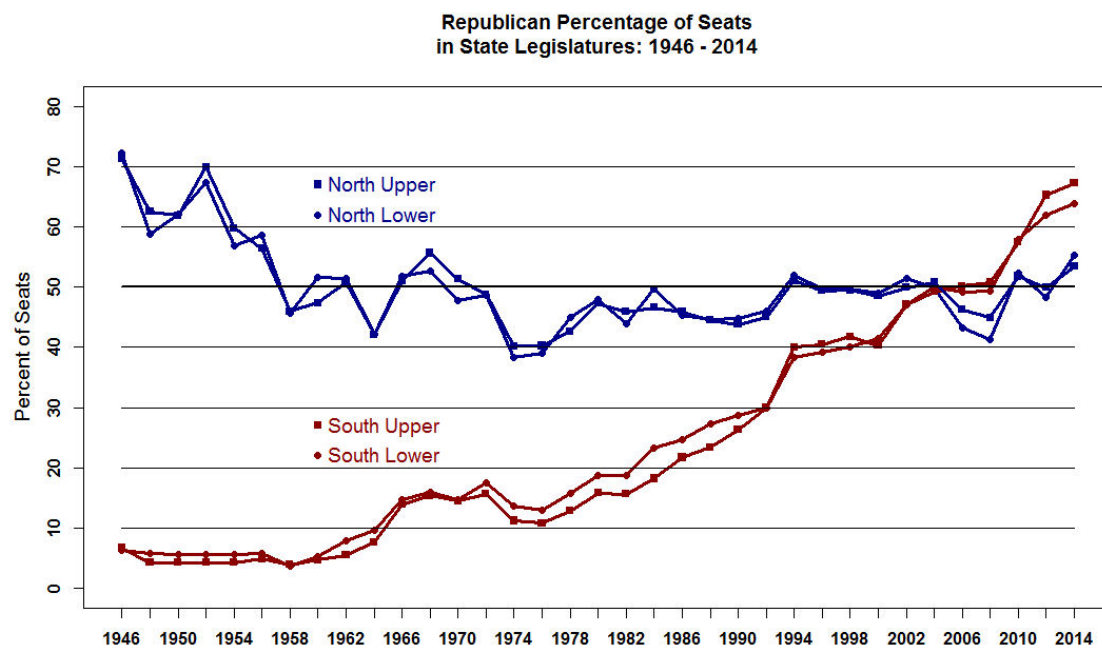
3. What does this Figure tell us about what has happened in the period since the end of the Great Recession?

Figure 1. Change in median and mean family incomes, 2007–13 surveys

Note: Changes are based on inflation-adjusted dollars.
Source: Federal Reserve Board, Survey of Consumer Finances.

4. Explain this figure from the first essay in *The Journal of Economic Perspectives*?

Changes in Top Income Shares and Top Marginal Income Tax Rates since 1960
(combining both central and local government income taxes)
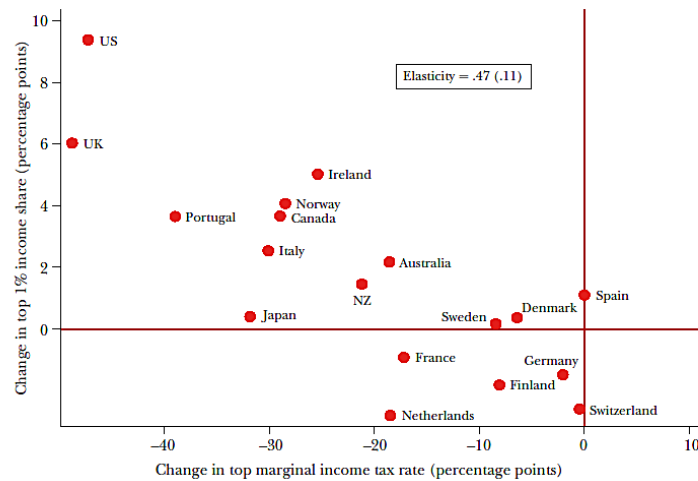

Source: Piketty, Saez, and Stantcheva (2011, revised October 2012, figure 3). Source for top income shares is the World Top Incomes Database. Source for top income tax rates is OECD and country-specific sources.

Notes: The figure depicts the change in the top 1 percent income share against the change in the top income tax rate from 1960–64 to 2005–2009 for 18 OECD countries. If the country does not have top income share data for those years, we select the first available five years after 1960 and the most recent 5 years. For the following five countries, the data start after 1960: Denmark (1980), Ireland (1975), Italy (1974), Portugal (1976), Spain (1981). For Switzerland, the data end in 1995 (they end in 2005 or after for all the other countries). Top tax rates include both the central and local government top tax rates. The correlation between those changes is very strong. The elasticity estimates of the ordinary least squares regression of $\Delta \log(\text{top 1\% share})$ on $\Delta \log(1 - \text{MTR})$ based on the depicted dots is 0.47 (0.11).

5. According to Stiglitz, what is "Rent Seeking."

6. This figure is from *Rise of the Robots* that I discussed in my recorded lecture. What is the meaning of this graph in terms of what appears to be going on in many sectors of the economy.

Figure 2.8. Percentage of US Workers in Manufacturing
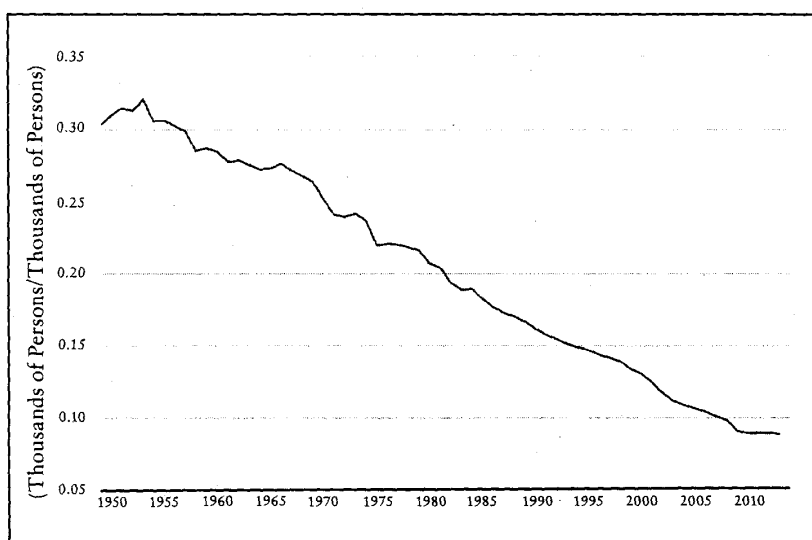
SOURCE: US Bureau of Labor Statistics and Federal Reserve Bank of St. Louis (FRED).[51]