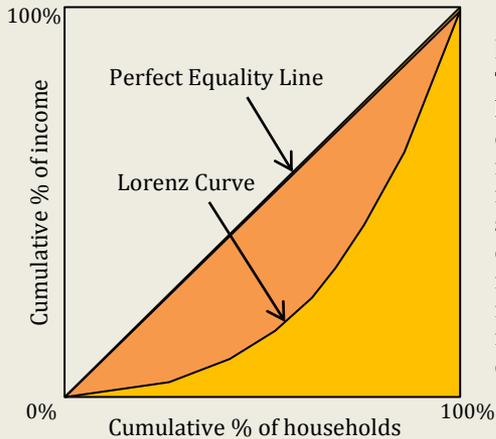


Understanding The Gini Coefficient

The Gini coefficient is a summary statistic that measures the dispersion of incomes on a scale of zero to one. A Gini of zero reflects perfect equality, where every household has the same income. A Gini of one represents perfect inequality, where one household has all of the income.

Gini coefficient =  divided by ( + )



How does this work?

The Lorenz curve is a graph with the horizontal axis showing the cumulative proportion of households ranked according to their household income and with the vertical axis showing the corresponding cumulative proportion of household income. The further the Lorenz curve is from the Perfect Equality Line, the more unequal the income distribution.

International comparison of Gini coefficients is **not straightforward**

There are differences in computation methods adopted by different countries. Some examples are:



Equivalence scales



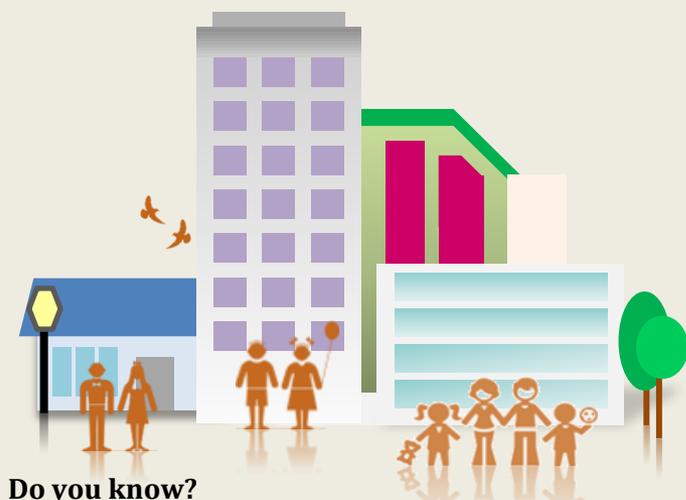
Household income definitions



Population coverage



Equivalence scales make adjustments to the incomes of households so that households with **different compositions and sizes** can be analysed



Do you know?

Equivalence scales account for economies of scale among household members. The needs of a household increase with each additional member but not in a proportional way. For example, a household with four members does not consume four times more electricity and housing space than a single member household.

Illustrative Example

	Per Household Member Scale	Modified OECD Scale	Square Root Scale
Total household income	\$4,000	\$4,000	\$4,000
Equivalence value	4 Number of household members	2.1 1st adult is assigned 1 point, each additional adult is assigned 0.5 points and each child is assigned 0.3 points	2 Square root of household size
Equivalised household income	$\$4,000 \div 4 =$ \$1,000	$\$4,000 \div 2.1 =$ \$1,905	$\$4,000 \div 2 =$ \$2,000

Equivalised household income is calculated by dividing total household income by the household equivalence scale. Internationally, there is no standard equivalence scale recommended for general use.