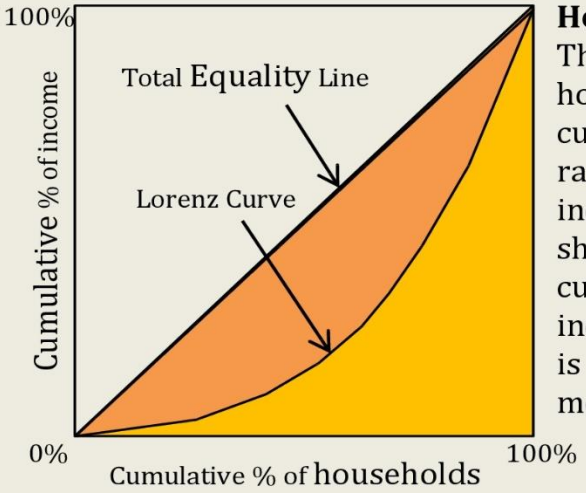
Understanding The Gini Coefficient

Appendix A

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 total equality, where every household has the same income. A Gini of one represents total inequality, where one household has all the income.

Gini coefficient = divided by (+)



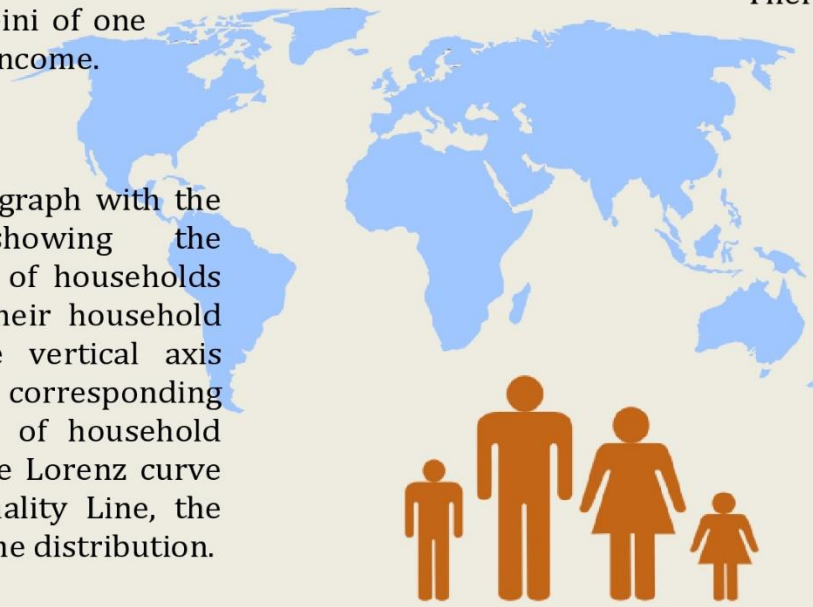
How does this work?

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 Total 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



Illustrative Example: *For a household comprising 2 adults and 2 children,*

	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 ÷ 4 = $1,000	$4,000 ÷ 2.1 = $1,905	$4,000 ÷ 2 = $2,000

*Equivalence scales adjust the income of households so that households with different compositions and sizes can be analysed. It accounts for economies of scale among household members, where the needs or consumption of a household may not increase proportionately with each additional member.

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