Unit 6.5 Income and Wealth Inequality

AP Microeconomics

Question Bank

1. Source: Externality MCQ Q12

Country A has a Gini coefficient of 0.5, and Country B has a Gini coefficient of 0.3. Which of the following statements is definitely true?

(A) Country A has higher average income than Country B.

(B) Country B has higher average income than Country A.

(C) Income is more evenly distributed in Country A than in Country B.

(D) Income is more evenly distributed in Country B than in Country A.

(E) Country A has more deadweight loss than Country B.

2. Source: Externality MCQ Q13

The Lorenz curve represents the relationship between

(A) the cumulative percentage of households and the cumulative percentage of income

(B) income tax rates and income tax revenues

(C) child labor rates and the poverty levels

(D) income inequality and education level

(E) market structure and the number of firms in the market

3. Source: Externality MCQ Q20

Which of the following actions is most likely to reduce the degree of income inequality within a society?

(A) Lowering the tax rate on income from savings

(B) Increasing regulations on labor unions

(C) Increasing the cost to households of primary and secondary education

(D) Introducing progressive inheritance taxes on accumulated wealth

(E) Eliminating taxes on corporate profits

4. Source: Externality MCQ Q37

In a given year, Jennifer earns $50,000 and spends $40,000. During the same period, Steve earns $30,000 and spends $27,000. If Jennifer and Steve both must pay a 10 percent sales tax on goods purchased, the sales tax is

(A) a higher percentage of income for Jennifer than for Steve

(B) a higher percentage of spending for Steve than for Jennifer

(C) progressive with respect to income

(D) regressive with respect to income

(E) proportional with respect to income

5. Source: Externality MCQ Q38

Which of the following statements about income inequality is true?

(A) A low average household income in a society suggests significant income inequality.

(B) A society with progressive income taxes will likely have a very unequal after-tax distribution of income.

(C) Low taxes on savings tend to lead to a more equitable distribution of after-tax income.

(D) Raising taxes on savings and providing subsidies to low-income households will lead to more equal after-tax and transfer incomes.

(E) Low tax rates on wealth will lead to less unequal income distributions.

6. Source: Externality MCQ Q39

A progressive income tax is characterized by

(A) a higher average tax rate at low income levels than at high income levels

(B) tax rates that increase total tax revenues

(C) marginal tax rates that do not change as income changes

(D) marginal tax rates that increase as income increases

(E) marginal tax rates that decrease as income increases

7. Source: Externality MCQ Q40

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PERCENTAGE OF INCOME RECEIVED, 2010		
Quintile	Before Taxes and Transfers	After Taxes and Transfers
Lowest 20 percent	1.1	5.1
Second 20 percent	7.9	11.1
Third 20 percent	15.5	16.5
Fourth 20 percent	24.7	23.8
Highest 20 percent	50.7	43.5

The table above shows the distribution of income in Country X in 2010 before and after taxes and transfer payments. Which of the following can be concluded about the effect of the government's tax and transfer policies on income distribution in Country X?

(A) The distribution of income is significantly less equal after accounting for the impact of government policies.

(B) The distribution of income is about the same after accounting for the impact of government policies.

(C) The largest gainers from government policies are the third and fourth quintile groups.

(D) The only quintile to benefit from government policies is the lowest quintile.

(E) The major transfer of income is from the highest quintile to the two lowest quintiles.

8. Source: Externality MCQ Q41

Which of the following is most likely to reduce inequality in a country's distribution of income?

(A) An increase in the population growth rate

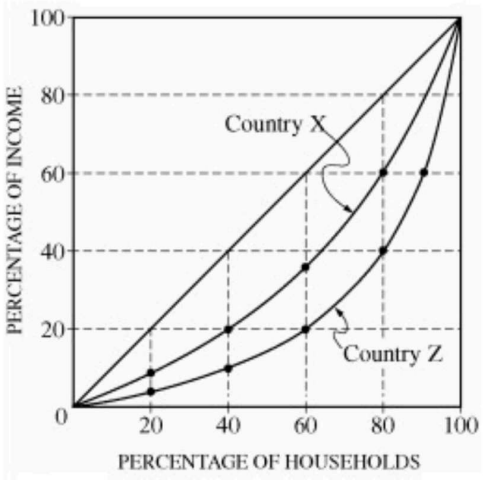
(B) Job training for low-skill workers

(C) An increase in the trade deficit

(D) A decrease in funding for training unemployed workers

(E) A regressive tax rate

9. Source: Externality MCQ Q42



Based on the information in the Lorenz curve above, which of the following is true?

(A) People in Country X make more money than people in Country Z.

(B) Income is more equally distributed in Country X than in Country Z.

(C) The top 20 percent of households in Country X received 60 percent of the total income.

(D) The top 20 percent of households in Country Z received 40 percent of the total income.

(E) The average income in Country X is higher than the average income in Country Z.

10. Source: Externality MCQ Q43

A Lorenz curve can be used by economists to do which of the following?

(A) Show the distribution of personal income

(B) Show the amount of wealth in a nation

(C) Show the amount of consumption in a nation

(D) Explain why different households have different incomes

(E) Explain why income is equally distributed in socialist countries

11. Source: Externality MCQ Q44

The Lorenz curve is used to study the

(A) relationship between output and unemployment

(B) relationship between income and consumption

(C) extent of income inequality within a society

(D) incidence of an excise tax on buyers and sellers in a market

(E) impact of foreign trade on domestic production of goods

12. Source: Externality MCQ Q45

A Lorenz curve can be used to evaluate which of the following economic issues?

(A) The allocative and technical efficiency of markets

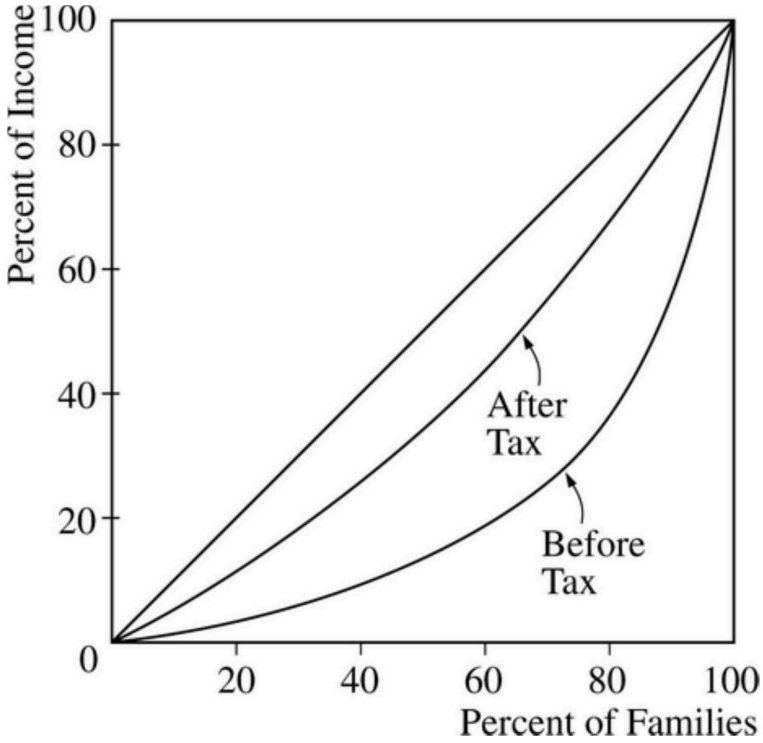
(B) The comparative advantage of trading partners and the terms of trade

(C) The degree of specialization and growth within countries

(D) The degree of equity in income distribution

(E) The equilibrium of market prices and quantities throughout the world

13. Source: Externality MCQ Q46



The Lorenz curves in the graph above show the effects of a tax system on income inequality. Which of the following statements must be true?

(A) Before the tax, 20% of families lived below the poverty level, and after the tax, none did.

(B) The tax redistributed income only from the top 20% of families to the lowest 20%.

(C) The tax system is proportional.

(D) The tax system is regressive.

(E) The tax system is progressive.

14. Source: Externality MCQ Q89

Which of the following will most likely lead to a more equal distribution of income?

(A) More regressive national sales tax

(B) More progressive income taxes

(C) An increase in the high school dropout rate

(D) An increase in structural unemployment

(E) An increase in earnings for owners of capital

15. Source: Externality MCQ Q95

All of the following are sources of inequality in the distribution of personal income EXCEPT

(A) progressive income taxes

(B) discrimination in employment

(C) differences in personal motivation

(D) differences in educational level attained

(E) differences in abilities

16. Source: Externality MCQ Q96

In the United States, the federal government redistributes income primarily by

(A) setting up planning commissions to set wage rates

(B) taxing different income levels at different rates

(C) guaranteeing every person a minimum income through minimum-wage laws

(D) providing the same goods and services to all citizens

(E) relocating and retraining structurally unemployed people

17. Source: Externality MCQ Q101

Which of the following is most likely to make a country's income distribution more equal?

(A) Establishing a national sales tax on food and clothing

(B) Establishing a progressive income tax system

(C) Eliminating excise taxes on luxury goods

(D) Proportionally decreasing the tax rate for all income groups

(E) Reducing the subsidy to education

18. Source: Externality MCQ Q102

Which of the following taxes contributes most to decreasing inequality in the distribution of income?

(A) Progressive income taxes

(B) Sales taxes

(C) Proportional income taxes

(D) Excise taxes

(E) Import tariffs on necessities

19. Source: Externality MCQ Q104

A governmental welfare program that taxes the labor income of the wealthy and redistributes the tax revenue to low-income citizens will

(A) increase income inequality and efficiency

(B) decrease income inequality and efficiency

(C) increase income inequality and decrease efficiency

(D) decrease income inequality and increase efficiency

(E) decrease income inequality and not affect efficiency

20. Source: Externality MCQ Q123

A Lorenz curve can be used to

(A) show the historical pattern of production

(B) forecast production costs

(C) show inequality in the income distribution

(D) show economies and diseconomies of scale

(E) show the shape of the long-run supply curve

21. Source: Externality MCQ Q125

The Lorenz curve is used to show which of the following?

(A) The total income generated from all activities

(B) The degree of inequality in the distribution of income within a country

(C) The progressivity of the income-tax structure within a country

(D) The extent of wage differences among workers in similar occupations

(E) The change in the poverty rate within a country over time

22. Source: Externality MCQ Q126

A society that wishes to achieve greater income equality is most likely to have which of the following?

(A) A regressive income tax system and high estate and gift taxes

(B) A regressive income tax system and low estate and gift taxes

(C) A progressive income tax system and high estate and gift taxes

(D) A progressive income tax system and low estate and gift taxes

(E) A proportional income tax system and high estate and gift taxes

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MCQ — Past Exam Questions

23. Source: 2021 AP Microeconomics Exam, Q59

A Lorenz curve can be used to

(A) show the historical pattern of production

(B) forecast production costs

(C) show inequality in the income distribution

(D) show economies and diseconomies of scale

(E) show the shape of the long-run supply curve

24. Source: 2023 AP Microeconomics Exam, Q52

Income inequality is measured by what economic concept?

(A) Market failure

(B) Unemployment

(C) Production function

(D) Gini coefficient

(E) Deadweight loss

25. Source: 2024 AP Microeconomics Exam, Q28

Suppose a country has a single person with all the income while all other people have no income. What is the Gini coefficient for that country?

(A) -1

(B) -0.5

(C) 0

(D) 0.5

(E) 1

26. Source: 2024 AP Microeconomics Exam, Q50

Which of the following is most likely to cause an increase in income inequality in a country?

(A) Increasing access to financial markets for people in low-income groups

(B) Providing subsidized job training to people in low-income groups

(C) Providing free higher education to people in low-income groups

(D) Implementing a progressive income tax structure

(E) Implementing a regressive income tax structure

27. Source: 2025 AP Microeconomics Exam, Q8

Discrimination in the workplace is one source of which of the following?

(A) Income and wealth inequality

(B) Productive efficiency

(C) Regressive income tax systems

(D) Formation of monopolies

(E) Scarcity of resources