

## References: Measuring economic growth and development

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## APPENDIX 2 CALCULATING THE GINI COEFFICIENT

To understand how the Gini coefficient is calculated, it is helpful to look at a Lorenz curve which provides a graphical representation of a nation's income distribution. The figure below shows a simple Lorenz curve drawn from the following hypothetical income distribution figures.

### Income distribution, by quintiles

In the figure below, the box measures the percentage of population on the horizontal axis and the percentage of total income received by each percent of the population on the vertical axis. The diagonal in the figure below is a reference "line of equality." Any point along it would mean that X percent of the population received exactly X percent of total income (where X could be any number between 1 and 100). Along the "line of equality," for example, 10 percent of the population would be receiving 10 percent of society's total income; 40 percent of the population would be receiving 40 percent of total income; and so on. The diagonal provides a referent for visually comparing and precisely measuring the dispersion of the *actual* income distribution of a nation with what would be a perfectly equal distribution of income among all members of society.

■ **Table A** Hypothetical Income Distribution

	<i>Share of total income</i>	<i>Cumulative percent of total income</i>
Poorest 20% of families	4% of total GNI	4%
Second 20% of families	8% of total GNI	12% (= 4% + 8%)

Third 20% of families	11% of total GNI	23% (= 4% + 8% + 11%)
Fourth 20% of families	18% of total GNI	41%
Richest 20% of families	59% of total GNI	100%
	100% of total GNI	

By plotting the “actual” aggregate values of income received against the quintiles of population for our hypothetical example, the bowed Lorenz curve in the figure below can be drawn. Very roughly, the further away the Lorenz curve is from the line of equality, the greater the degree of income inequality. From the Lorenz curve diagram, the Gini coefficient can be calculated. It is equal to the area A (the area between the Lorenz curve and the diagonal “line of equality”) divided by the total area (A + B) of the triangle below the “line of equality.” Thus the Gini coefficient is equal to  $A/(A + B)$ .

