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Income inequality and price elasticity of market demand: the case of crossing Lorenz curves

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Abstract

© 2017 The Author(s) This paper extends Ibragimov and Ibragimov (Econ Theory 32:579–587, 2007) in which the effect of changes income inequality on the price elasticity of market demand is characterized for the class of income distribution changes occurring through non-intersecting Lorenz curve shifts. We derive sufficient conditions for increase/decrease in price elasticity of market demand, under general changes in income distribution, allowing Lorenz curves to intersect as they shift. We conclude by drawing out implications of different types of tax policy changes for demand elasticity.

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Keywords

Direct tax policy, Downside inequality aversion, Income distribution, Inequality, Market demand elasticity, Transfer sensitivity