
A new index combining the absolute and relative aspects of income poverty: theory and application

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Abstract

I derive a new index combining the absolute and relative aspects of income poverty. Earning a larger income decreases one's absolute poverty but experiencing a larger income inequality increases one's relative poverty. Provided that the individual poverty is not computed based on the normalized income, the two aspects can be weighed such that absolutely poor individuals are always considered poorer than relatively poor individuals. Only the value of poverty aversion associated with the Poverty Gap Ratio is consistent with this approach. An application illustrates that the new index yields intuitive judgments about unequal growth experiences, for which all absolute (resp. relative) poverty indices systematically conclude that poverty has decreased (resp. increased).

Keywords: both

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