

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment and failure to type it will cost you 10 points.

1) (40 points) What are the *Keiretsu*? They would not be allowed in the USA. Why would they be illegal in the USA? What are the benefits of having them? Do you think they are a help or a detriment to the Japanese economy? Explain your logic.

2) (15 points) In what way is the Japanese banking system different from the banking system of the USA? What is the big advantage of their system? Explain your logic.

3) (15 points) What aspect of the Japanese economy do you think would benefit the USA to become more like? Explain your logic.

4) (30 points) What aspect of the Japanese economy do you think is in the greatest need of reform? Why do you feel that? How would you change it? Explain your logic.

Mind the gap: Income inequality, state by state

New report looks at where the growth in incomes of high-income families has outpaced that of middle- and low-income households.

By Jeanne Sahadi, CNNMoney.com senior writer

January 27, 2006: 12:35 PM EST

NEW YORK (CNNMoney.com) – You don't need to be a statistician to realize that economic growth in the past 20 years hasn't lifted everyone's boat equally.

The good news is that incomes across the board are up. But so is the income gap. That is, incomes for high-income families have risen faster than for everyone else.

MORE ON PAY DISPARITY

But growth in the income gap has been greater in some states than in others, according to a report released Thursday by two liberal think tanks – the Economic Policy Institute and the Center on Budget and Policy Priorities. (See table below to see where the greatest disparities are.)

For the period between the early 1980s and the early 2000s, the report found that the incomes of the top fifth of families grew faster than those of the bottom fifth of families in 38 states. The states where the gap grew the most were Arizona, New York, Massachusetts, Tennessee and New Jersey.

In only one state – Alaska – did income growth for low-income families outpace that of high-income households.

By the early 2000s, the average income of the top 20 percent of families in 32 states was at least 6.4 times higher than that of low-income families. That's a big change since the early 1980s, when no state had a "top to bottom" ratio exceeding 6.4.

When the authors looked at the incomes of the top 5 percent of households in 11 large states, they found sharp disparities. The top 5 percent of families saw their incomes rise as much as 132 percent between 1980 and 2003. The bottom 20 percent of families, meanwhile, saw their incomes rise by no more than 24 percent.

In dollars and cents, average incomes of those in the top 5 percent rose between \$80,400 to over \$153,000. Increases for the bottom 20 percent in those 11 states, meanwhile, didn't exceed \$4,000.

Since the early 1980s, the gap between high-income and middle-income households also rose. The report noted that the top 20 percent of households had incomes more than 2.3 times greater than that of middle-income households in 36 states by the early 2000s. Again, that's a huge difference compared with the early '80s, when that was the case in only one state.

Why the disparity?

The authors of the report point to several factors that have contributed to the widening income gaps since the early 1980s.

Among those they cite as having disproportionately hurt the earnings of low- and middle-income households are: long periods of high unemployment, globalization, the loss of manufacturing jobs, the growth in low-wage service jobs, and a stagnant minimum wage.

The federal minimum wage -- \$5.15 an hour -- has remained unchanged since 1997. Only 17 states and the District of Columbia have set their minimums higher.

They also point to the growth in investment income in the 1990s as another factor that has disproportionately boosted the incomes of higher income households.

Consequences of income inequality

That incomes have grown overall may seem like an unqualified good. But there can be social and political consequences when the income gap widens, some economists say.

Robert Frank, an economist at Cornell University, for instance, found that in counties with the widest income gaps, rates of personal bankruptcy and divorce rates were higher than average.

He also notes that when wealthier families see their incomes rise at a faster pace than everyone else, their spending can create what he calls an "expenditure cascade." That is, the demand for bigger and better homes or safer cars can create new standards for those lower down on the economic scale.

But since their incomes aren't growing as fast, they have a hard time keeping up, leading to what

Frank calls "welfare loss." For example, as home prices rise, it becomes harder to afford a home in a neighborhood with good public schools.

And when the majority of households come under financial stress to provide a solid life for their families, voters will be less inclined to pay for public services such as bridge and highway maintenance, port security and food inspection.

And that can adversely affect everyone.

Mind the Gap: Income inequality, state by state

The Economic Policy Institute and the Center on Budget and Policy Priorities ranked each state according to the ratio of the average income for the top 5% of families to the average income for the bottom 20% of families. Income listed is after federal tax and includes capital gains. Click on state name for more statistics on major cities and towns.

| Rank | State | Avg income of top 5% of families | Avg income of bottom 20% of families | Top-to-bottom ratio |
|------|----------------|----------------------------------|--------------------------------------|---------------------|
| 1 | Arizona | \$223,081 | \$15,719 | 14.2 |
| 2 | Texas | \$203,174 | \$14,724 | 13.8 |
| 3 | New York | \$216,061 | \$16,076 | 13.4 |
| 4 | New Jersey | \$268,889 | \$20,391 | 13.2 |
| 5 | Kentucky | \$193,766 | \$14,814 | 13.1 |
| 6 | Tennessee | \$187,026 | \$14,303 | 13.1 |
| 7 | Florida | \$199,892 | \$15,396 | 13.0 |
| 8 | California | \$207,363 | \$16,773 | 12.4 |
| 9 | North Carolina | \$183,253 | \$14,884 | 12.3 |
| 10 | Pennsylvania | \$223,152 | \$18,548 | 12.0 |
| 11 | Massachusetts | \$233,108 | \$19,690 | 11.8 |
| 12 | Maryland | \$253,923 | \$21,480 | 11.8 |
| 13 | Arkansas | \$163,908 | \$13,888 | 11.8 |
| 14 | Alabama | \$172,029 | \$14,765 | 11.7 |
| 15 | Washington | \$195,170 | \$16,911 | 11.5 |
| 16 | Louisiana | \$153,334 | \$13,347 | 11.5 |
| 17 | Kansas | \$209,125 | \$18,284 | 11.4 |
| 18 | New Mexico | \$157,011 | \$13,748 | 11.4 |
| 19 | Colorado | \$215,109 | \$18,983 | 11.3 |
| 20 | Illinois | \$203,876 | \$18,032 | 11.3 |
| 21 | Michigan | \$200,814 | \$17,927 | 11.2 |
| 22 | West Virginia | \$147,434 | \$13,208 | 11.2 |
| 23 | Virginia | \$200,191 | \$18,110 | 11.1 |
| 24 | Connecticut | \$231,928 | \$21,003 | 11.0 |
| 25 | Mississippi | \$145,342 | \$13,456 | 10.8 |
| 26 | Hawaii | \$208,340 | \$19,294 | 10.8 |
| 27 | Ohio | \$195,175 | \$18,216 | 10.7 |
| 28 | Rhode Island | \$200,859 | \$18,916 | 10.6 |
| 29 | South Carolina | \$157,634 | \$14,957 | 10.5 |

| | | | | |
|----|---------------|-----------|----------|------|
| 30 | Indiana | \$195,217 | \$18,590 | 10.5 |
| 31 | Maine | \$164,232 | \$15,975 | 10.3 |
| 32 | Oregon | \$175,976 | \$17,367 | 10.1 |
| 33 | Minnesota | \$223,411 | \$22,608 | 9.9 |
| 34 | Utah | \$192,142 | \$19,594 | 9.8 |
| 35 | New Hampshire | \$226,178 | \$23,128 | 9.8 |
| 36 | Georgia | \$158,382 | \$16,345 | 9.7 |
| 37 | Oklahoma | \$150,011 | \$15,483 | 9.7 |
| 38 | Missouri | \$176,320 | \$18,482 | 9.5 |
| 39 | Nevada | \$180,521 | \$19,143 | 9.4 |
| 40 | Vermont | \$176,291 | \$18,846 | 9.4 |
| 41 | Delaware | \$188,435 | \$20,225 | 9.3 |
| 42 | Montana | \$135,164 | \$14,788 | 9.1 |
| 43 | Idaho | \$162,923 | \$17,847 | 9.1 |
| 44 | North Dakota | \$147,519 | \$16,805 | 8.8 |
| 45 | Alaska | \$180,148 | \$20,533 | 8.8 |
| 46 | Wisconsin | \$174,919 | \$20,197 | 8.7 |
| 47 | South Dakota | \$155,427 | \$18,353 | 8.5 |
| 48 | Iowa | \$155,722 | \$18,503 | 8.4 |
| 49 | Nebraska | \$160,862 | \$19,242 | 8.4 |
| 50 | Wyoming | \$145,587 | \$18,171 | 8.0 |

Note: Analysis based on data from the Census Bureau's Current Population Survey.