



HANDOUT 2
Numeric Examples of Money, Income, and Wealth

Fill in the table below based on the following information:

On Jan. 1, 2000, Jake has \$20,000 in his bank account, \$15,000 in stocks, and \$1,000 in cash. During the year, his employer pays him a salary of \$60,000. He spends \$38,000 on food, rent, gasoline, and other consumer goods and services. The difference between those figures is his savings, which he deposits in his bank account. During the year, the value of his stocks does not change.

On Jan. 1, 2000, Hannah has \$40,000 in her bank account, \$40,000 in stocks, and \$4,000 in cash. During 2000, her employer pays her a salary of \$50,000. She spends \$41,000 on food, rent, gasoline, and other consumer goods and services. The difference between those figures is her savings, which she deposits in her bank account. During the year, the value of her stocks does not change, but toward the end of the year she withdraws \$10,000 from her bank account to buy more stocks.

To keep things simple, assume that the information above is everything you need to know. So, for example, assume no interest is paid on Hannah's and Jake's bank accounts, even if that's unrealistic.

| | Jake | | Hannah | |
|---------------------|---------------------|----------------------|---------------------|----------------------|
| | Jan. 1, 2000 | Dec. 31, 2000 | Jan. 1, 2000 | Dec. 31, 2000 |
| Bank account | | | | |
| Stocks | | | | |
| Cash | | | | |
| Salary | | | | |
| Expenses | | | | |
| Savings | | | | |
| Money | | | | |
| Wealth | | | | |
| Income | | | | |

Now circle the correct answer for each of the following questions:

- | | | | |
|---|------|--------|-------|
| 1. Who has more money on Jan. 1, 2000? | Jake | Hannah | Equal |
| 2. Who has greater wealth on Jan. 1, 2000? | Jake | Hannah | Equal |
| 3. Who has the higher income in 2000? | Jake | Hannah | Equal |
| 4. Who has more money on Dec. 31, 2000? | Jake | Hannah | Equal |
| 5. Who has greater wealth on Dec. 31, 2000? | Jake | Hannah | Equal |

Based on the table and answers above, discuss the following:

6. Is it possible to objectively state which individual — Jake or Hannah — is in the stronger financial position? In other words, can we say who is "better off"?
7. How can imprecise use of these terms cause problems in setting national policy?

Answers for HANDOUT 2

| | Jake | | Hannah | |
|---------------------|--------------|---------------|---------------|---------------|
| | Jan. 1, 2000 | Dec. 31, 2000 | Jan. 1, 2000 | Dec. 31, 2000 |
| Bank account | 20,000 | 42,000 | 40,000 | 39,000 |
| Stocks | 15,000 | 15,000 | 40,000 | 50,000 |
| Cash | 1,000 | 1,000 | 4,000 | 4,000 |
| Salary | 60,000 | | 50,000 | |
| Expenses | 38,000 | | 41,000 | |
| Savings | 22,000 | | 9,000 | |
| Money | 21,000 | 43,000 | 44,000 | 43,000 |
| Wealth | 36,000 | 58,000 | 84,000 | 93,000 |
| Income | 60,000 | | 50,000 | |

1. Hannah has more money on Jan. 1, 2000: $\$44,000 > \$21,000$
2. Hannah has greater wealth on Jan. 1, 2000: $\$84,000 > \$36,000$
3. Jake has the higher income in 2000: $\$60,000 > \$50,000$
4. Jake and Hannah have the same amount of money on Dec. 31, 2000: Both $\$43,000$
5. Hannah has greater wealth on Dec. 31, 2000: $\$93,000 > \$58,000$

Discussion questions: Sample answers

6. "Stronger financial position" and "better off" are imprecise terms, though we often use such expressions in everyday speech. In economic analysis, it's important to be precise and equally important to know that precise terms have scope. On Dec. 31, 2000, on the table, for example, Hannah has greater wealth than Jake; Jake has a higher income than Hannah; and Jake and Hannah have the same amount of money. Here, money, income, and wealth are certainly not interchangeable terms. And neither money nor income nor wealth gives a complete view of the relative financial position of these two individuals.
7. Careless use of the terms money, income, and wealth might lead to erroneous conclusions and inappropriate policies. (1) Suppose Hannah is typical of U.S. citizens. Looking only at the money supply, one might conclude that Americans are worse-off at year-end than they were in January. They would miss the sizable rise in wealth over the year and the fact that people had shifted their assets from money to stocks. (2) Suppose that some group wished to redistribute wealth from rich to poor. If they based their plan solely on income, they would tax Jake (whose income is higher) and subsidize Hannah (whose income is lower). In doing so, however, the government would be taking money from the person with *less* wealth and giving it to the person with *more* wealth.