

The Inequality of Extreme Incomes

Lidia Ceriani and Paolo Verme

Abstract

The paper derives the conditions under which income inequality measured with the Gini index is expected to increase or decrease if missing observations are added at the top or/and at the bottom of an income distribution. It shows that adding observations on the extremes of the income distribution does not necessarily result in an increase in inequality, but that meeting the conditions for obtaining a decrease in inequality is unlikely. It also shows that adding observations at the top weighs more on inequality than adding observations at the bottom. These findings are confirmed by an application to US states data. Adding observations on the extremes of an income distribution should be normally expected to increase inequality and recovering missing observations at the top should be prioritized.

Keywords: Income Inequality; Income Distributions; Migration; Top Incomes; Bottom incomes.

JEL Codes: D31; D63; E64; O15.