

New new bottom billion: Poverty and regional differences in price levels around the world

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Abstract

Comparable national price levels are a fundamental instrument for any research attempting to compare economic indicators of various countries. Nowadays they are produced by a number of organizations, namely the World Bank, Organization for Economic Cooperation and Development and the Penn World Tables. However these are provided only on national level even though significant evidence of inter-regional differences in price levels exists. This could lead to a bias of income-based economic indicators. Systematic assessment of the impact of spatial price differences on income-based economic indicators was done in this thesis. On the basis of the existing research it estimates regional price levels for a sample of 21 high and middle income countries. By combination of these indicators with income survey data provided by the Luxembourg Income Study it constructs Gini coefficients and poverty headcount ratios both adjusted and unadjusted for regional price levels. Significant and persistent evidence of bias induced by regional price levels is found throughout the sample. In the majority of cases the failure to adjust for spatial price differences leads to overestimation of income inequality and incidence of poverty. The overestimation is most significant in the case of middle income countries.