



**POLICY OPTIONS AND CHALLENGES
FOR DEVELOPING ASIA—
PERSPECTIVES FROM THE IMF AND ASIA**

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JAPAN BANK FOR INTERNATIONAL COOPERATION

**COMMENTS ON
“FINANCE, INEQUALITY AND THE POOR”
BY THORSTEN BECK, ASLI DEMIRGUC-KUNT
AND ROSS LEVINE**

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PERSPECTIVES FROM THE IMF AND ASIA*

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Session 2: Inequality

Comments on
“Finance, Inequality and the Poor”
by Thorsten Beck, Asli Demirguc-Kunt and Ross Levine



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April 19 2007

Key Features

- ❑ Challenges unsolved question: Does financial development help the poor?
- ❑ Careful choice of a variable for financial development: “private credit”, instead of commonly used “M2”
- ❑ GMM method as well as OLS
- ❑ Thorough robustness tests: reverse causality, outliers, country-specific effects
- ❑ One of the earliest studies using **WIDER (2005)**
⇒ the most useful database of income inequality for cross-country analyses

(Beck *et al.* also use inequality data from Dollar and Krray(2002))

WIDER (2005)

World Income Inequality Database version 2.0a

◆ Advantages

- Released in June 2005
- Popular, trusted data: Earlier version used in many empirics
- World-wide coverage of countries (152 countries and areas)
- Internationally-comparable database of income inequality

◆ Limitations

- Lack of data availability is severe (Many blanks)
- Various different definitions of “income” inequality

(i.e., “Income” definition: Consumption/Disposable income/Gross income)

⇒ Forces researchers to compare “consumption” inequality of Country A and “gross income” inequality of Country B

e.g., Bangladesh in WIDER database

- Five yearly observations over the period 1995-2000
(4 observations in 1996, 1 observation in 2000)

Year	Gini	Income Definition	Source
1996	38.2	Consumption	D&S, WB2004
1996	41.2	Income, Gross	D&S, WB2004
1996	43.0	Income, ..	Khan 1997
1996	33.5	Consumption	WB-PMD
2000	31.7	Consumption	WDI 2004

Questions to Mr. Beck

- How have you overcome the potential problem of inconsistency of inequality data caused by limited data availability and different definitions of “income” inequality?
- Would you provide any suggestions on using inequality data in policy-making and future research?