

Krause, Melanie

**Conference Paper**

## Parametric Lorenz Curves and the Modality of the Income Density Function

Beiträge zur Jahrestagung des Vereins für Socialpolitik 2012: Neue Wege und Herausforderungen für den Arbeitsmarkt des 21. Jahrhunderts - Session: Microeconometrics and Statistics, No. D09-V3

**Provided in Cooperation with:**

Verein für Socialpolitik / German Economic Association

*Suggested Citation:* Krause, Melanie (2012) : Parametric Lorenz Curves and the Modality of the Income Density Function, Beiträge zur Jahrestagung des Vereins für Socialpolitik 2012: Neue Wege und Herausforderungen für den Arbeitsmarkt des 21. Jahrhunderts - Session: Microeconometrics and Statistics, No. D09-V3

This Version is available at:

<https://hdl.handle.net/10419/67390>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

# Parametric Lorenz Curves and the Modality of the Income Density Function

Melanie Krause \*

Goethe University Frankfurt

DRAFT VERSION 11.09.12

## Abstract

Similar looking Lorenz Curves can imply very different income density functions and potentially lead to wrong policy implications regarding inequality. This paper derives a relation between a Lorenz Curve and the modality of its underlying income density: Given a parametric Lorenz Curve, it is the sign of its third derivative which indicates whether the density is unimodal or zeromodal (i.e. downward-sloping). Several single-parameter Lorenz Curves such as the Pareto, Chotikapanich and Rohde forms are associated with zeromodal densities. The paper contrasts these Lorenz Curves with the ones derived from the (unimodal) Lognormal density and the Weibull density, which, remarkably, can be zero- or unimodal depending on the parameter. A performance comparison of these five Lorenz Curves with Monte Carlo simulations and data from the UNU-WIDER World Income Inequality Database underlines the relevance of the theoretical result: Curve-fitting of decile data based on criteria such as mean squared error might lead to a Lorenz Curve implying an incorrectly-shaped density function. It is therefore important to take into account the modality when selecting a parametric Lorenz Curve.

**JEL Classification:** C13, C16, D31, O57

**Keywords:** Lorenz Curve, Income Distribution, Modality, Inequality, Goodness of Fit

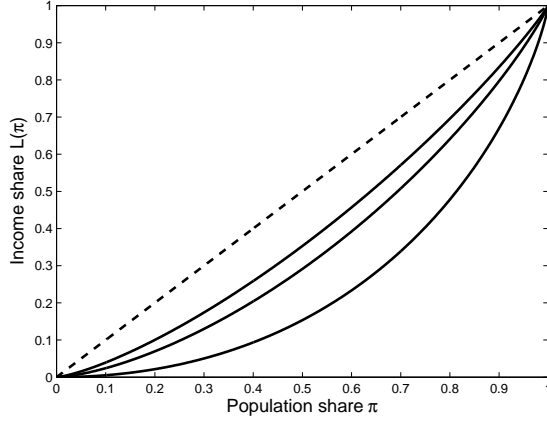
## 1 Introduction

In the macroeconomic field of growth and development it is not only of interest to analyze a country's total GDP but also how it is distributed across the population. A widely used concept to express inequality is the Lorenz Curve  $L(\pi)$ , developed by Lorenz (1905), which links the cumulative income share  $L$  to the cumulative share  $\pi$  of people in the population earning an income up to this level. When income becomes more equally distributed, the LC

---

\*Correspondence address: Goethe University Frankfurt, Faculty of Economics and Business Administration, Chair for International Macroeconomics & Macroeconometrics, Gruenewaldplatz 1, House of Finance, 60323 Frankfurt am Main, Germany; E-mail address: melanie.krause@wiwi.uni-frankfurt.de; melanie.krause84@gmx.de. The author is grateful for comments and suggestions to seminar participants at Goethe University, the RGSE conference in Duisburg, the IAES conference in Istanbul and the 'Jahrestagung des Vereins für Socialpolitik' in Göttingen.

approaches the 45 degree line. An example of different LCs is depicted in Figure (1).



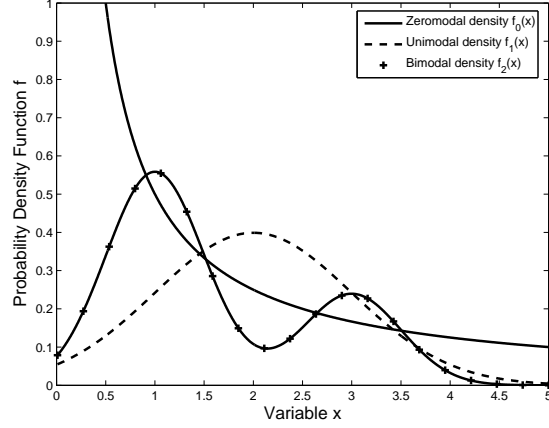
**Figure 1:** Illustration of Different Lorenz Curves

Given empirical data, the choice of the appropriate functional form for the LC is usually based on a goodness of fit criterion such as Mean Squared Error. This paper argues, however, that such a choice might be misleading because very similar looking LCs can imply very different shapes of the underlying income density  $f(x)$ . I propose a way to infer the modality of an income density from the functional form of the LC so that researchers can take it into account when choosing among various LC functions.

The modality - the number of modes - vitally determines the shape of a density: Figure (2) shows three density functions of different modality, namely zeromodal (downward-sloping)  $f_0(x)$ , the normal distribution as an example of a unimodal density  $f_1(x)$  and a bimodal normal mixture  $f_2(x)$ .

In this paper I argue that the third derivative of an LC indicates the modality of its underlying income density. So it is not necessary to derive the density explicitly (which can be tedious).

It is generally acknowledged and pointed out e.g. by Dagum (1999) and Kleiber (2008) that wealth densities tend to be zeromodal, whereas income densities are typically unimodal (unless a country is very poor and overpopulated). However, several single-parameter LCs used in empirical income studies belong to zeromodal densities. These are for example the Pareto LC (see Arnold (1983)) and the LCs proposed by Chotikapanich (1993) and Rohde (2009). This paper contrasts these LCs with ones associated with unimodal densities, like the Lognormal density. A particular focus of my analysis lies on the LC associated with the Weibull density because, depending on the value of its shape parameter, this density can be either zeromodal or unimodal.



**Figure 2:** Density Functions with Different Modalities

These five LCs are then used in a Monte Carlo simulation highlighting the relevance of a density's modality: Draws are taken from a given density and then aggregated to decile points, the usually available format in large cross-country data sets. Will the LC best fitting these decile points in a Mean Squared Error way imply a density with the correct shape? And, given the answer is no, how can the researcher avoid such a situation in practice, when the underlying modality is unknown? An application of the five LCs to decile data from the United Nations University - World Institute for Development Economics Research (2008) gives further insights.

This paper is structured as follows: In Section 2 the theoretical result on the relation between the LC and the modality of its density function is derived, while in Section 3 it is applied to the Pareto, Chotikapanich, Rohde, Lognormal and Weibull LCs. The Monte Carlo Simulation is carried out in Section 4 and the empirical analysis follows in Section 5. Section 6 briefly concludes. Some technical derivations and large tables have been relegated to the Appendix.

## 2 Relation between the Lorenz Curve and the modality of its density

Let me start with the formal definition of an LC  $L(\pi)$  by Kakwani and Podder (1973) and Kakwani and Podder (1976):

**Definition 1.** A function  $L(\pi)$ , continuous on  $[0, 1]$  and with second derivative  $L''(\pi)$ , is a Lorenz Curve (LC) if and only if

$$L(0) = 0, L(1) = 1, L'(0^+) \geq 0, L''(\pi) \geq 0 \text{ in } (0, 1) \quad (1)$$

A density  $f(x)$  with mean  $\mu$ , cumulative distribution  $\pi = F(x)$  and its inverse function  $x = F^{-1}(\pi)$  is related to its LC  $L(\pi)$  by the following formula (see Gastwirth (1971) and Kakwani (1980)):

$$F^{-1}(\pi) = L'(\pi)\mu \quad (2)$$

Hence, starting with a given income density with  $f(x)$  and  $\pi = F(x)$ , one can obtain the LC as follows: Find the inverse cumulative distribution function  $x = F^{-1}(\pi)$  and divide it by  $\mu$  to obtain the slope  $L'(\pi)$  of the LC. Integrating with respect to  $\pi$  and making sure that the properties from (1) are fulfilled gives  $L(\pi)$ .

The modality of the density function  $f(x)$  can be defined formally in terms of sign changes in its first derivative  $f'(x)$ :

**Definition 2.** *The modality of a continuously differentiable density  $f(x)$  on  $[x_L, x_U]$  is the number of local maxima  $\tilde{x} \in (x_L, x_U)$  where*

$$\begin{cases} f'(\tilde{x}) = 0, \\ f'(x) > 0 & \forall x \in \tilde{X}_N \wedge x < \tilde{x} \\ f'(x) < 0 & \forall x \in \tilde{X}_N \wedge x > \tilde{x}, \end{cases} \quad (3)$$

with  $\tilde{X}_N$  denoting the neighborhood of the point  $\tilde{x}$ .

In the following, I will make use of a result by Arnold (1987), who differentiates (2) with respect to  $x$  and summarizes the relation in his theorem:

**Theorem 1.** *If for the Lorenz Curve  $L(\pi)$  the second derivative  $L''(\pi)$  exists and is positive in an interval  $(x_1, x_2)$ , then  $F(x)$  has a finite positive density in the interval  $(x_L, x_U) = (\mu L'(F(x_1^+)), \mu L'(F(x_2^-)))$  which is given by*

$$f(x) = \frac{1}{\mu L''(F(x))} \quad (4)$$

*Proof.* See Arnold (1987). □

I now propose my theorem on the relation between the LC and the modality of its density:

**Theorem 2.** *If the LC  $L(\pi)$  has a third derivative  $L'''(\pi)$  and the cumulative distribution  $F(x)$  has a finite positive and differentiable density  $f(x)$  in the interval  $(x_L, x_U)$ , it holds:*

- *If and only if  $L'''(\pi) > 0 \forall \pi \in (0, 1)$ , then  $f'(x) < 0 \forall x \in (x_L, x_U)$ . This means that  $f(x)$  is zeromodal.*
- *If and only if  $L'''(\pi) < 0 \forall \pi < \tilde{\pi} = F(\tilde{x})$  and  $L'''(\pi) > 0 \forall \pi > \tilde{\pi} = F(\tilde{x})$ , then  $f'(x) > 0 \forall x < \tilde{x}$  and  $f'(x) < 0 \forall x > \tilde{x}$ . This means that  $f(x)$  is unimodal with mode  $\tilde{x}$ .*

- *In general: If and only if  $L'''(\pi)$  has  $n \geq 1$  sign changes from  $L'''(\pi) < 0$  to  $L'''(\pi) > 0$  occurring at  $n$  points  $\tilde{\pi}_i$  (with  $i = 1, \dots, n$ ), then  $f'(x)$  shows the corresponding sign changes from  $f'(x) > 0$  to  $f'(x) < 0$  occurring at the  $n$  points  $\tilde{x}_i$  (with  $i = 1, \dots, n$ ). This means that  $f(x)$  is  $n$ -modal with modes at  $\tilde{x}_i$  (with  $i = 1, \dots, n$ ).*

*Proof.* Differentiating (4) with respect to  $x$ , one arrives at

$$f'(x) = -\frac{f(x)}{\mu[L''(F(x))]^2}L'''(F(x)) \quad (5)$$

Note that  $f(x)$ ,  $\mu$  and  $[L''(F(x))]^2$  are nonnegative, so there is a negative relation between  $f'(x)$  and  $L'''(F(x))$ . Combining this relation with Definition (2) gives the theorem.  $\square$

So it is the sign of the third derivative of the LC which determines the modality of the underlying density function. By Definition (1), the first and second derivatives of an LC are positive. If the third derivative is positive as well, the density is zeromodal, but if its sign changes  $n$ -times from negative to positive, the density is  $n$ -modal. This means that given any parametric LC, one can infer the shape of the underlying density just from looking at its third derivative, without explicitly deriving the density. In the following, I will discuss the implications of this insight for LC fitting in practice. Because of the empirical importance for income and wealth distributions, the focus will be on zeromodality and unimodality, although as shown in (2), my theoretical result applies to distributions of a higher modality as well.

### 3 The density modality of some parametric LCs

#### 3.1 The Pareto, Chotikapanich and Rohde LCs

A number of parametric forms have been proposed to fit empirical LCs and they can have one or more parameter; for an overview see Ryu and Slottje (1999) and Sarabia (2008).<sup>1</sup> While multi-parameter LCs, such as the forms suggested by McDonald (1984), Dagum (1977), Villasenor and Arnold (1989) and Basmann et al. (2002), tend to achieve a better fit than their single-parameter counterparts, they entail an increased complexity in estimating the parameters, see e.g. Ryu and Slottje (1999). Single-parameter curves are known for their simplicity, ease of parameter interpretation, and crucially, feasibility in the presence of scarce data. In broad cross-country datasets often only decile data points are available, so this paper will concentrate on single-parameter LCs.

---

<sup>1</sup>For the merits and drawbacks of parametric LCs compared to their non-/semiparametric counterparts, see Ryu and Slottje (1999). Research is advancing in both strands, consider e.g. Sarabia (2008) and Rohde (2009) on parametric LCs and Hasegawa and Kozumi (2003) and Cowell and Victoria-Feser (2007) on non-/semiparametric LCs. One should be aware that the structural assumptions underlying parametric LCs might be a limitation, however, they offer the only feasible estimation approach in the presence of decile data.

As examples, I will consider the well-known Pareto LC (see Arnold (1983)) and the forms proposed by Chotikapanich (1993) and more recently by Rohde (2009). Their parametric forms  $L(\pi)$  are given in the first three rows of Table (1). There I also present their third derivatives  $L'''(\pi)$ , which, intriguingly, are all positive on the whole domain. According to Theorem (2), this means that the income density functions associated with these three LCs are zeromodal.<sup>2</sup> One should bear in mind that these LC parametrizations are used in empirical studies with income data - which is often unimodal. One could argue that, given the positivity restriction of  $L'(\pi)$  and  $L''(\pi)$ , it is more obvious to find single-parameter forms whose third derivative is positive as well rather than sign-changing. Indeed, expressions for the latter parametric LCs tend to be algebraically more involved, as we will see in the following, when we consider the Lognormal and Weibull forms.

LC	Parameter	$L(\pi)$	$L'''(\pi)$	Density Modality	Gini
Pareto	$\alpha > 1$	$1 - (1 - \pi)^{1 - \frac{1}{\alpha}}$	$\frac{\alpha^2 - 1}{\alpha^3} \cdot (1 - \pi)^{-\frac{1}{\alpha} - 2}$	zero	$\frac{1}{2\alpha - 1}$
Rohde	$\beta > 1$	$\pi^{\frac{\beta - 1}{\beta - \pi}}$	$\frac{6\beta(\beta - 1)}{(\beta - \pi)^4}$	zero	$2\beta \cdot \left[ \left( \frac{\beta - 1}{\beta} \right) + 1 \right] - 1$
Chotikapanich	$k > 0$	$\frac{e^{k\pi} - 1}{e^k - 1}$	$\frac{k^3 e^{k\pi}}{e^k - 1}$	zero	$\frac{e^k + 1}{e^k - 1} - \frac{2}{k}$
Lognormal	$\sigma > 0$	$\Phi(\Phi^{-1}(\pi) - \sigma)$	see (9) in the text	uni	$2\Phi\left(\frac{\sigma}{\sqrt{2}}\right) - 1$
Weibull	$b > 0$	$1 - \frac{\Gamma(-\log(1 - \pi), 1 + \frac{1}{b})}{\Gamma(1 + \frac{1}{b})}$	$\frac{(-\log(1 - \pi))^{\frac{1}{b} - 2}}{\Gamma(1 + \frac{1}{b}) b^2 (1 - \pi)^2} \cdot [1 - b + b(-\log(1 - \pi))]$	zero/ uni	$1 - 2^{-\frac{1}{b}}$

**Table 1:** LC derivatives and density modalities for the Pareto, Rohde, Chotikapanich, Lognormal and Weibull parametrizations

<sup>2</sup>Because the density functions of these parametric LCs are known, one could also look at them directly to check their zeromodality. For instance, Rohde (2009) has derived the income density of his LC as  $f(x) = \frac{1}{2} \sqrt{\frac{\beta(\beta - 1)\mu}{x^3}} \quad \forall x \in \left[ \frac{(\beta - 1)\mu}{\beta}; \frac{\beta\mu}{\beta - 1} \right]$ . However, Theorem (2) allows to infer its zeromodality without having to derive the functional form of the density explicitly.

### 3.2 The Lognormal LC

A widely-used example of a unimodal income distribution is the Lognormal, whose density and cumulative distribution function are given by:

$$f(x) = \frac{1}{x\sqrt{2\pi\sigma^2}} e^{-\frac{(\log(x) - \bar{\mu})^2}{2\sigma^2}} \quad (6)$$

and

$$F(x) = \Phi\left(\frac{\log(x) - \bar{\mu}}{\sigma}\right) \quad (7)$$

with shape parameter  $\sigma$ , scaling parameter  $\bar{\mu}$ ,<sup>3</sup> and  $\Phi(x)$  denoting the cumulative distribution function of the standard normal distribution of  $x$ . The one mode is located at  $\tilde{x} = e^{\bar{\mu} - \sigma^2}$ , below the mean of  $\mu = e^{\bar{\mu} + \frac{\sigma^2}{2}}$  (see also Aitchison and Brown (1957)). In Row 4 of Table (1) we can see the Lognormal LC as presented by Sarabia (2008)

$$L(\pi) = \Phi(\Phi^{-1}(\pi) - \sigma) \quad (8)$$

This single-parameter function depends only on  $\sigma$ .<sup>4</sup> Crucial for my analysis is again its third derivative, because according to Theorem (2) the unimodality of the density implies that it must be sign-changing, unlike the third derivatives of the Pareto, Rohde and Chotikapanich LCs. In fact, one can show that the Lognormal LC's third derivative

$$\begin{aligned} L'''(\pi) &= \frac{\phi''(\Phi^{-1}(\pi) - \sigma) \cdot \phi(\Phi^{-1}(\pi)) - \phi(\Phi^{-1}(\pi) - \sigma) \cdot \phi''(\Phi^{-1}(\pi))}{[\phi(\Phi^{-1}(\pi))]^4} \\ &- \frac{3[\phi'(\Phi^{-1}(\pi) - \sigma) \cdot \phi'(\Phi^{-1}(\pi)) - \frac{\phi(\Phi^{-1}(\pi) - \sigma)}{\phi(\Phi^{-1}(\pi))} \cdot (\phi')^2(\Phi^{-1}(\pi))]}{[\phi(\Phi^{-1}(\pi))]^4} \end{aligned} \quad (9)$$

is indeed sign-changing from negative to positive, with the change occurring at  $\tilde{\pi} = F(\tilde{x}) = \Phi(-\sigma)$ .

### 3.3 The Weibull LC

As this paper focuses on the relation between the LC and the modality of the underlying income density, one functional form deserves particular attention: The Weibull density and distribution function given by

$$f(x) = \frac{b}{a} \left(\frac{x}{a}\right)^{b-1} e^{-\left(\frac{x}{a}\right)^b} \quad (10)$$

$$F(x) = 1 - e^{-\left(\frac{x}{a}\right)^b} \quad (11)$$

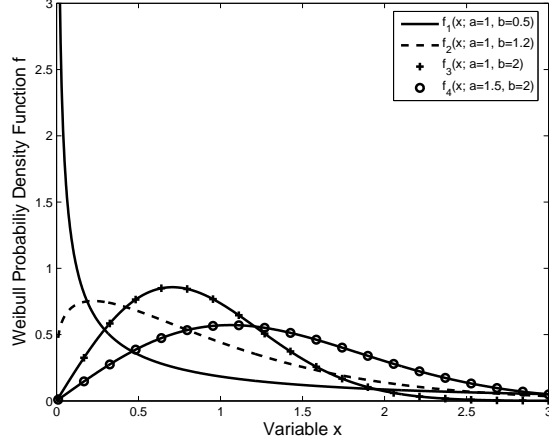
<sup>3</sup>In the notation of this paper  $\mu$  stands for the distribution mean, which is why I resort to labeling  $\bar{\mu}$  the parameter of the Lognormal distribution otherwise known as  $\mu$ .

<sup>4</sup>Note that while the Lognormal density depends on two parameters, it leads to a uniparametric LC because the scaling parameter  $\bar{\mu}$  drops out in the step of dividing by the distributional mean.



for  $x > 0$  with scaling parameter  $a > 0$  and shape parameter  $b > 0$ .

The reason why this density is so appealing to our analysis lies in the flexibility of  $b$ : For  $b \leq 1$ , the density is zeromodal; for  $b > 1$ , it is unimodal.



**Figure 3:** Weibull Density Functions with different  $a$  and  $b$  parameters

Examples of different Weibull densities are depicted in Figure (3) and several properties become clear: The higher  $b > 1$ , the more concentrated is the density around the mode. The scale parameter  $a$  determines the location of the mode and how far the density is spread out, but the shape is entirely captured by  $b$ . The Weibull density allows for positive skewness; in particular, small values of  $b > 1$  lead to unimodal and strongly positively skewed densities. These properties make the Weibull density suitable for modeling (unimodal) income densities, while also representing zeromodal densities with  $b \leq 1$ . The Weibull distribution is a special case of the Generalized Beta distribution. In this context, its ability to model income densities has been analyzed by McDonald (1984) and McDonald and Ransom (2008).

However, the single-parameter LC pertaining to the Weibull density does not seem to have appeared in the literature yet, so I derive its functional form here.

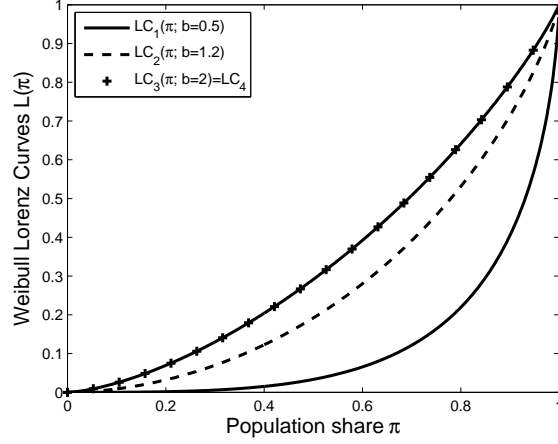
**Theorem 3.** *The LC associated with a Weibull distributed variable  $x$  with  $\pi = F(x)$  given in (11) has the single-parameter LC*

$$L(\pi) = 1 - \frac{\Gamma(-\log(1 - \pi), 1 + \frac{1}{b})}{\Gamma(1 + \frac{1}{b})} \quad (12)$$

where  $\Gamma(\alpha) = \int_0^\infty t^{\alpha-1} e^{-t} dt$  is the Gamma function and  $\Gamma(x, \alpha) = \int_x^\infty t^{\alpha-1} e^{-t} dt$  is the upper incomplete Gamma function.

*Proof.* See Appendix A. □

It should be noted that while the Weibull density depends on both the scale parameter  $a$  and the shape parameter  $b$ , the LC is a function just of  $b$ . Like in the Lognormal case, this is a result of division by the mean, which makes the LC abstract from scale. Therefore  $f_3$  and  $f_4$  from Figure (3) have the same LC in Figure (4). This graph also shows that higher values of  $b$  unambiguously imply less inequality.



**Figure 4:** Weibull LCs  $LC(\pi)$  with different  $b$  parameters

Row 5 of Table (1) presents the Weibull LC and its third derivative, which I derive as

$$L'''(\pi) = \frac{(-\log(1-\pi))^{\frac{1}{b}-2}}{\Gamma(1+\frac{1}{b})b^2(1-\pi)^2} \left[ 1 - b + b(-\log(1-\pi)) \right] \quad (13)$$

From Theorem (2) it directly follows that  $L'''(\pi)$  is positive for  $b \leq 1$ , implying a zero-modal density, and sign-changing for  $b > 1$ , implying a unimodal density. In the latter case,  $L'''(\pi) = 0$  occurs at the point  $\tilde{\pi}$  referring to the mode  $\tilde{x} = a \left(1 - \frac{1}{b}\right)^{\frac{1}{b}}$  of the Weibull density. For an alternative proof of these properties, see Appendix B.

## 4 Monte Carlo Simulation

Section 3 has illustrated Theorem (2) on the relation between an LC's third derivative and the modality of its income density, using as examples of the Pareto, Rohde, Chotikapanich, Lognormal and Weibull LCs. Let us now turn to the practical importance of this theoretical insight: When a researcher fits decile data points to different LCs and chooses the one with the best fit, what will the density of this LC look like?

For the purpose of deciding which of the five parametric LCs has the best fit, I use two complementary criteria: the Mean Squared Error (MSE) and the Gini difference. While

the MSE indicates how well the parametric LC fits the given (decile) data points, the Gini difference (see Chotikapanich (1993)) exploits the relation between the Gini coefficient and the LC:

$$Gini = 1 - 2 \int_0^1 L(\pi) d\pi \quad (14)$$

Having estimated the parametric LC to fit the data, one can calculate the Gini implied by the LC according to this formula. The Gini difference is then obtained as the absolute difference between the implied Gini and the actual one. In contrast to MSE, the Gini difference captures the overall fit of the shape of the LC rather than only the fit at the decile data points.

In the last column of Table (1) in Section 3, I present the Gini coefficients implied by the five parametric LCs.<sup>5</sup> One should note the sign of the relation between the functional parameter and the Gini: A higher Pareto  $\alpha$ , Rohde  $\beta$  and Weibull  $b$  are associated with less inequality, while a higher Chotikapanich  $k$  and Lognormal  $\sigma$  imply a more inequalitarian distribution.

The MC Simulation is carried out as follows:

1. I begin by taking 10,000 draws from a fixed underlying income density with zeromodal or unimodal shape and mean 1.
2. The drawn income data is aggregated to decile data points (which is the usually available data format in large cross-country income inequality datasets).
3. For each of the five parametric forms, I calculate the parameter which best fits the decile data points by minimizing the MSE.<sup>6</sup> This procedure is carried out using the `fminunc`-routine in MatLab.
4. The MSE and the Gini difference are calculated for each of the five parametric forms and stored.
5. Steps 1 to 4 are repeated 10,000 times.
6. Look which of the five parametric forms has the lowest MSE and/or Gini difference overall: Does the density implied by this LC have the correct shape, that is, does it look similar to the actual one?

I put the answer upfront - it is clearly no. It is a important conclusion of this paper that the researcher cannot rely upon decile point MSE or Gini difference to pick an LC whose

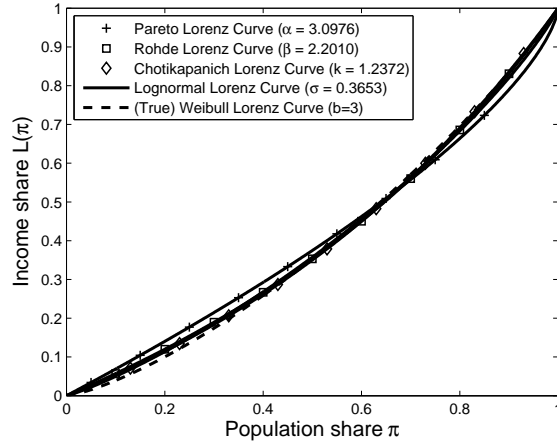
---

<sup>5</sup>These formulas can be found, respectively, in Arnold (1983) (for the Pareto LC), Rohde (2009), Chotikapanich (1993) (I use a simplified expression of her formula) and McDonald (1984) (with the Weibull and Lognormal distributions as special cases of the Generalized Beta).

<sup>6</sup>When using the Mean Absolute Error rather than the Mean Squared Error for LC fitting at the decile points, the relative performance of the five parametric forms remains mostly unchanged. Only the Pareto form tends to obtains a slightly better fit with this criterion, which penalizes large deviations less severely.

density has the correct shape. Instead he/she should limit their choice upfront to the LCs with the correct density modality.

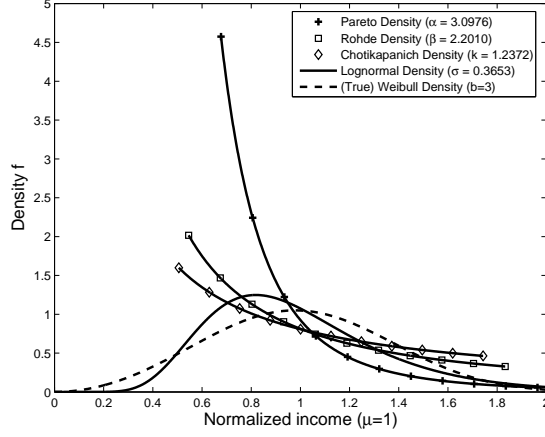
Table (7) in Appendix C displays the results when the underlying density is Lognormal or Weibull, for varying inequality levels.<sup>7</sup> Of course, fitting an LC of this given form always leads to the lowest MSE and Gini difference. But the focus lies on which of the other LC forms does best, highlighted in bold. For instance, for an underlying egalitarian Weibull density (with  $b=3$ ), a fitted Chotikapanich LC leads to the lowest MSE at the decile data points. If, based on this criterion, the researcher chose the Chotikapanich LC, the implied density would be zeromodal and very different from the true Weibull density. Figures (5) and (6) show the LCs and densities for this case. The very similar looking LCs give rise to considerably varying income densities. A researcher aware of the unimodality of his data should rather decide on the Lognormal LC, which, despite its slightly higher MSE at the given decile points, captures the unimodal shape of the Weibull income density. A diverging shape might lead to incorrect conclusions about the distribution of income, because the downward-sloping Chotikapanich density misses out on the dominance of the middle class and implies a larger number of comparatively poor earners. As Table (7) shows, the Gini difference as goodness of fit criterion would (appropriately) point towards the Lognormal LC in the above setting. But in other MC simulations, I find no evidence for a general superiority of the Gini difference over MSE in finding an LC whose density has the correct shape.



**Figure 5:** Parametric LCs fitting decile data from a simulated underlying Weibull density ( $b = 3$ , Gini = 0.2063)

For each MC setting, Table (7) also gives two measures of distance from the implied densities to the true one in order to underline the importance of the correct modality.

<sup>7</sup>When conducting the simulations with other underlying densities other than the five discussed here, the overall results and implications of modality and the goodness of fit criteria are similar.



**Figure 6:** Normalized Densities associated with the LCs from Figure (5)

The Kullback-Leibler Distance (see Kullback and Leibler (1951)) and the intuitive Integral Difference between a true density  $f(x)$  and an approximating density  $g(x)$  are defined as

$$\text{K-L Dist.} = \int_{-\infty}^{\infty} f(x) \log \left( \frac{f(x)}{g(x)} \right) dx \quad (15)$$

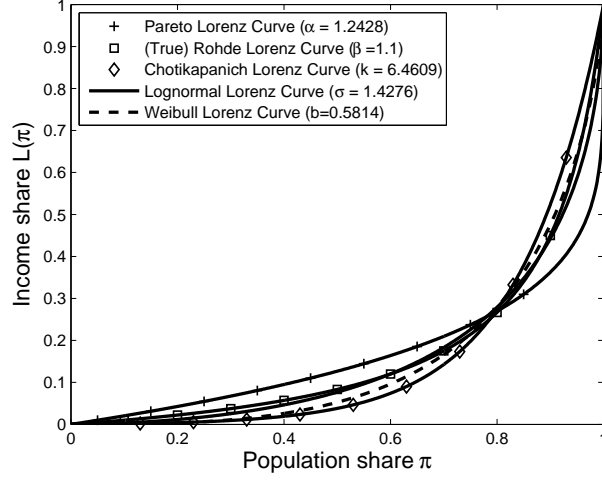
and

$$\text{Int. Diff.} = \int_{-\infty}^{\infty} |f(x) - g(x)| dx \quad (16)$$

Of course, in empirical studies, where the underlying density function is not known, these measures cannot be calculated. Here they support our MC analysis by confirming e.g. that the unimodal Lognormal density has the smallest distance from the true unimodal Weibull. Examining the other Weibull and Lognormal settings in (7), the MSE and Gini difference criteria often point to different LCs but their density modality is often not correct. For instance, in the moderately inegalitarian (unimodal) Lognormal setting, MSE is lowest for the Rohde LC and Gini difference for the Chotikapanich LC, both of which are zeromodal. But the unimodal density of the Weibull LC correctly captures the shape (which is also represented in the density distance measures).

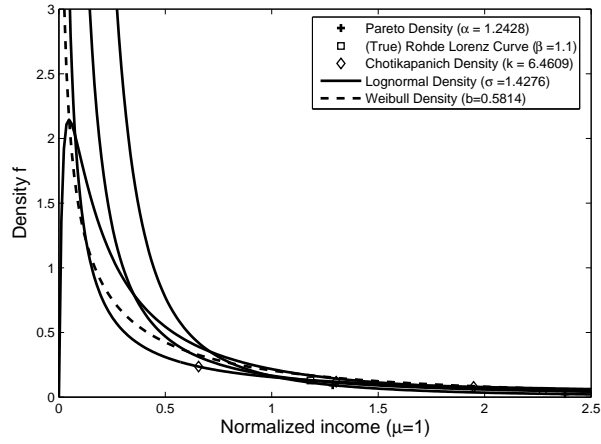
In Table (8) in Appendix C, the MC simulation is carried out with underlying zeromodal Chotikapanich, Rohde and Pareto densities. Only in some cases, LC fitting leads to a density with the correct modality, like for egalitarian Chotikapanich and Rohde densities, which are adequately approximated by each other and implied by MSE and Gini difference. But in general, MSE and Gini difference are not reliable indicators of an LC with the correct density modality.

One setting deserves particular attention: When the true density is a very inegalitarian zeromodal of the Rohde form ( $\beta=1.1$ ), MSE and Gini difference are lowest for the



**Figure 7:** Parametric LCs fitting decile data from a simulated underlying Rohde density ( $\beta = 1.1$ , Gini = 0.6725)

Lognormal LC, the only one to imply a unimodal density. Surprisingly, the density difference measures are in accordance with this choice and suggest that the unimodal Lognormal density comes nearer to the true Rohde one than the zeromodal densities.



**Figure 8:** Normalized Densities associated with the LCs from Figure (7)

The reason lies at the very high inequality level: Figures (7) and (8) show that the mode of the Lognormal density is near zero which makes it effectively downward-sloping on most

of the domain.<sup>8</sup>

One can conclude that the relevance of choosing an LC with the correctly implied modality diminishes in extremely inegalitarian settings. This case, with a simulated Gini coefficient of 0.6725, is however of limited practical importance. For egalitarian and moderately inegalitarian income distributions, the researcher should definitely take the modality into account because decile point goodness of fit criteria like MSE and Gini difference can lead to an LC with an incorrect density shape.

## 5 An Empirical Analysis

After the MC simulations, let us now turn to empirical data. How do the Pareto, Rohde, Chotikapanich, Lognormal and Weibull LCs fit countries' decile income data? How can the researcher pick an LC associated with correct modality, if the true income density modality is unknown?

### 5.1 The Dataset

My data is taken from the United Nations University - World Institute for Development Economics Research (2008). From this database, 1628 LC data rows fulfill the following criteria:

- Decile data points are given.<sup>9</sup>
- Only income data is used rather than consumption or expenditure.<sup>10</sup>
- The data has been given a quality rating of 1, 2 or 3 in the database.<sup>11</sup>

---

<sup>8</sup>In a Lognormal density with mean 1 (and therefore  $\bar{\mu} = -\frac{\sigma^2}{2}$ ), the mode is located at

$$\tilde{x} = e^{\bar{\mu} - \sigma^2} = e^{-\frac{3}{2}\sigma^2} \quad (17)$$

Using the Gini of the Lognormal Lorenz Curve  $2\Phi\left(\frac{\sigma}{\sqrt{2}}\right) - 1$ , one can express the location of the mode (17) as a direct function of the Gini coefficient:

$$\tilde{x} = e^{-3\left[\Phi^{-1}\left(\frac{Gini+1}{2}\right)\right]^2} \quad (18)$$

For a Gini of 0.5, the mode is at 0.2554, while in the above case of a Gini at 0.6725, the mode is at very low 0.0563 - keeping in mind that mean income is still 1.

<sup>9</sup>The availability of decile data points for a wide range of countries is a key asset of this database. Other worldwide income databases used for inequality measurement include the one compiled by Deininger and Squire (1996), containing only quintile data, and The World Bank (2011), which has data on quintiles and just the first and last deciles.

<sup>10</sup>It is known that consumption is typically more equally distributed than income. Note that wealth would be even more unequally distributed than income, see e.g. Castañeda et al. (2003). Excluding all data other than income is a basis for ensuring at least a broad comparability across countries.

<sup>11</sup>United Nations University - World Institute for Development Economics Research (2008) classifies the data according to the clarity of the income concept used and the transparency of the survey. Their quality rating goes from 1 (highest) to 4. Category 4 is reserved for memorandum items and those from particularly

In cross-country studies with a world-wide sample, there is often a tradeoff between the extensiveness of the dataset and its reliability and accuracy. For my analysis, the focus is not to compare inequality across countries for policy recommendations, but rather to analyze LC performance and its implications for income density modality in a variety of settings and inequality levels. Therefore, only the three broad criteria stated above are imposed, which leaves me with a huge dataset comprising 1628 LCs from 120 different countries and many different time periods. Direct cross-country comparisons are then beset by some caveats, for instance the slightly varying income definitions across countries (taxable income, disposable income etc). For some countries, only recent data is available, for others data series range back decades. Furthermore, some data is of a lower quality than other, according to the rankings 1, 2 and 3. One should keep all that in mind when proceeding to the analysis and interpretation.

The decile data on LCs in the database is accompanied by a reported Gini coefficient.<sup>12</sup> The lowest Gini coefficients are below 0.2 and have been reported by Finland (1980s and 1990s), Czechoslovakia and its succeeding Czech Republic and Slovakia in the 1980s and 1990s, and Pakistan in the 1960s. At the high end, Ginis above 0.7 are from Mali, Mauritania, Zambia and Zimbabwe in the 1980s and 1990s.

Region	Europe (West)	Europe (East)	Africa	Asia	The Americas
# Countries	18	24	25	25	28
# Observations	481	261	53	284	549
Mean Reported Gini	0.3117	0.2921	0.5647	0.3862	0.5040
(Standard Deviation)	(0.0563)	(0.0726)	(0.1118)	(0.0836)	(0.0702)
# Weibull-implied Unimodals	479	257	10	242	213
# Weibull-implied Zeromodals	2	4	43	42	336

**Table 2:** Descriptive Overview of the Dataset

The 120 countries in our database can be divided into five regional groups: Europe (West), Europe (East, referring to the formerly centrally-planned economies), Africa, The Americas (including the Caribbean) and Asia (which also comprises the Middle East and Pacific countries). A cross-sectional overview of all countries and reported Gini coefficients in the year 2000 (or nearest) can be found in Tables (9) and (10) in Appendix C.<sup>13</sup> Aggregate

unreliable old sources, which make up 10.3% of all decile data. This is the only data I discard. Data from Category 3 is still considered intransparent but I deliberately include it in order to have a broad worldwide dataset. Limiting myself to the highest quality standards 1 and 2 would exclude many developing countries: Out of my 1628 LC data rows, 662 are classified Category 1, 475 Category 2 and 491 Category 3.

<sup>12</sup>The Gini coefficients have either been reported directly by the countries or calculated by the World Bank with the POVCAL software, which is based on extrapolation using a combination of two three-parameter LCs. For a performance review of POVCAL, see Minoiu and Reddy (2009).

<sup>13</sup>In the cross-country growth literature following Mankiw et al. (1992), it has become standard not to consider countries which are predominantly oil-exporting or have a very small population (less than 300,000), because particular economic conditions might apply there. In my dataset, oil-exporting Norway and Venezuela and tiny Barbados would be affected by these criteria. I find, however, that the LC estimations in these countries are in line with their neighbors and excluding them from the dataset would not significantly alter the regional results.



statistics by regions are given in Table (2): According to the mean reported Ginis, inequality in formerly Socialist Europe is slightly lower than in Western Europe but its inter-country dispersion is larger. Income distributions in Asia are more egalitarian than in the Americas, while Africa is the continent with the highest mean Gini and the highest inter-country dispersion.

## 5.2 The use of Weibull-implied Modality

Given the decile data points, the estimation is carried out like in the MC simulation. Each of the 1628 LCs is estimated separately: For each of the five parametric forms, I calculate the parameter which best fits the decile data points by minimizing the MSE. MSE and Gini difference are then calculated accordingly, using the reported Gini as a proxy for the actual one.<sup>14</sup> But when comparing the best-performing LCs and their implied modality, a problem arises: The true underlying income density and its modality are unknown. Ideally, the researcher should try to obtain additional data for each country and year and combine it with the general observation that income distributions in poorer, overpopulated countries tend to be zeromodal and those in more developed countries unimodal. This paper, however, solely relies on the decile data given and instead exploits the flexibility of the Weibull LC: It uses the modality implied by the Weibull LC as a proxy for the true one. When the fitted parameter of the Weibull LC is larger than 1, I conclude that the density is unimodal, otherwise it is assumed to be zeromodal.

Table (2) and Column 4 of Tables (9) and (10) in Appendix C show that according to the Weibull parameter, income is predominantly unimodal in Europe and Asia, mostly zeromodal in Africa and sometimes unimodal, sometimes zeromodal on the American continent.<sup>15</sup>

## 5.3 Empirical LC Fitting Results, classified by Density Modality

In Table (3) the results of fitting the whole dataset of 1628 LCs are shown, while in Table (4) the sample is split according to the Weibull-implied modality.

As Table (3) shows, the Lognormal LC has the lowest average MSE across the dataset and its MSE is lower than those of the other forms for 1475 out of 1628 LCs. The picture is not so clear when the Gini difference is used: The Lognormal LC again has the lowest average Gini difference across the dataset, but for a relative majority of LCs the Weibull form leads to the lowest Gini difference. Also, the Gini difference reveals the virtues of the three LCs associated with zeromodal densities because each of them is the most appropriate in more than particular 100 settings. The performance differences between the parametrizations are often remarkable: When using the Pareto LC for the whole dataset

<sup>14</sup>This assumption is not without caveats in settings with low data quality but it is used in the literature and appears justifiable in light of the broadness of the sample.

<sup>15</sup>Note that this is very much in line with the reported Gini coefficients: Countries with high Ginis (in particular higher than 0.45-0.48) tend to have a Weibull-implied zeromodality, those with low Ginis implied unimodality.

Parametric LC	Pareto	Rohde	Chotikapanich	Lognormal	Weibull
Parameter	$\alpha > 1$	$\beta > 1$	$k > 0$	$\sigma > 0$	$b > 0$
Est. Min. Parameter	1.1459	1.0556	0.8672	0.2612	0.4463
Est. Mean Parameter	1.9474	1.5055	2.7338	0.7454	1.5338
Est. Max. Parameter	3.9807	2.8444	9.5550	1.7400	4.4134
MSE	0.001144	0.000201	0.000699	<b>0.000085</b>	0.000480
(Standard Dev.)	(0.000627)	(0.000219)	(0.000713)	(0.000196)	(0.000461)
MSE/Lowest MSE	13.4588	2.3647	8.2235	1.0000	5.6471
Gini Difference	0.015826	0.010808	0.009502	<b>0.007554</b>	0.009415
(Standard Dev.)	(0.009915)	(0.009657)	(0.010702)	(0.011133)	(0.012148)
Gini Diff./Lowest Gini Diff.	2.0950	1.4308	1.2579	1.0000	1.2464
# Lowest MSE	40	7	5	<b>1475</b>	101
# Lowest Gini Diff.	200	118	164	519	<b>627</b>

**Table 3:** Results from fitting 1628 LCs to Parametric Forms

rather than the Lognormal, the average Mean Squared Error is more than 13 times as high. Due to different measurement units, the magnitudes are not so high for the Gini difference; still, the average Gini difference is twice as high for the Pareto LC as for the Lognormal. Still, the five LCs for one individual country setting will generally be very close to each other.

Parametric LC	Pareto	Rohde	Chotikapanich	Lognormal	Weibull
WEIBULL-IMPLIED UNIMODALS (1201 LCs, Mean Gini 0.3387)					
Est. Min. Parameter	1.5426	1.2601	0.8672	0.2612	1.0002
Est. Mean Parameter	2.1319	1.6152	2.1815	0.6222	1.7810
Est. Max. Parameter	3.9807	2.8444	3.4764	0.9417	4.4134
MSE	0.001034	0.000180	0.000417	<b>0.000073</b>	0.000372
(Standard Dev.)	(0.000610)	(0.000202)	(0.000462)	(0.000176)	(0.000386)
MSE/Lowest MSE	14.1644	2.4658	5.7123	1.0000	5.0959
Gini Difference	0.015550	0.010238	0.009169	<b>0.006672</b>	0.007345
(Standard Dev.)	(0.009513)	(0.008969)	(0.009237)	(0.009631)	(0.010148)
Gini Diff./Lowest Gini Diff.	2.3306	1.5345	1.3743	1.0000	1.1009
# Lowest MSE	28	4	5	<b>1067</b>	97
# Lowest MSE (uni-mod)	-	-	-	<b>1100</b>	101
# Lowest Gini Diff.	127	61	77	365	<b>571</b>
# Lowest Gini Diff. (uni-mod)	-	-	-	<b>629</b>	572
WEIBULL-IMPLIED ZEROMODALS (427 LCs, Mean Gini 0.5520)					
Est. Min. Parameter	1.1459	1.0556	3.4624	0.9394	0.4463
Est. Mean Parameter	1.4306	1.1969	4.2871	1.0917	0.8388
Est. Max. Parameter	1.5534	1.2631	9.5550	1.7400	0.9994
MSE	0.001455	0.000260	0.001493	<b>0.000118</b>	0.000785
(Standard Dev.)	(0.000571)	(0.000253)	(0.000694)	(0.000240)	(0.000515)
MSE/Lowest MSE	12.3305	2.2034	12.6525	1.0000	6.6525
Gini Difference	0.016602	0.012412	0.010441	<b>0.010037</b>	0.015237
(Standard Dev.)	(0.010941)	(0.011227)	(0.013997)	(0.014272)	(0.015081)
Gini Diff./Lowest Gini Diff.	1.6541	1.2366	1.0403	1.0000	1.5181
# Lowest MSE	12	3	0	<b>408</b>	4
# Lowest MSE (zero-mod)	17	<b>398</b>	0	-	12
# Lowest Gini Diff.	73	57	87	<b>154</b>	56
# Lowest Gini Diff. (zero-mod)	74	57	<b>217</b>	-	79

**Table 4:** Results from Fitting LCs where Weibull  $b > 1$  and  $b \leq 1$  to five Parametric Forms

In the results for the split sample (Table (4)), one notes the similarity of the two groups: The Lognormal LC also outperforms across the unimodal and zeromodal settings, thereby erroneously suggesting a unimodal density shape in the latter case. In fact, for 408 out of the 427 zeromodals, the Lognormal LC has the lowest MSE. When restricting the choice to the LCs which imply the correct modality, Rohde’s form obtains the lowest MSE for 398 of them. Again the Gini difference leads to a wider range of outperformers: Each of the five forms has the lowest Gini difference in more than 50 settings and the inappropriate

Lognormal LC does not dominate as starkly. Among the LCs with a zeromodal density, the Chotikapanich form achieves the lowest Gini difference most often.

In the unimodal group, the dominance of Lognormal and Weibull LC mostly ensures correct modality. But in particular the Gini difference as criterion would suggest a considerable number of incorrect shapes: 127 Pareto LCs, 61 Rohde LCs and 77 Chotikapanich LCs. In most of these cases the Lognormal LC will be taken, if the researcher restricts the choice upfront to unimodality-implying LCs.

Comparing the absolute values of the MSEs and Gini differences in the unimodal and zeromodal group of Table (4), one may conclude that the fit of all parametric forms is worse in the latter, which is a lot more inegalitarian on average. I investigate this hypothesis as follows: For each LC of country  $i$  at time  $t$  I run the following OLS regressions and display the results in Table (5):

$$MSE_{i,t} = \alpha_{i,t} + \beta Gini_{i,t} + \epsilon_{i,t} \quad (19)$$

$$Ginidiff_{i,t} = \alpha_{i,t} + \beta Gini_{i,t} + \epsilon_{i,t} \quad (20)$$

Parametric form	Pareto	Rohde	Chotikapanich	Lognormal	Weibull
Mean $\beta$ in (19)	0.002596***	0.000528***	0.004540***	0.000302***	0.001902***
(Standard Error)	(0.000116)	(0.000044)	(0.000100)	(0.000041)	(0.000085)
$R^2$	0.2356	0.0799	0.5588	0.0326	0.2342
Mean $\beta$ in (20)	0.011249***	0.012502***	0.007608***	0.017172***	0.034921***
(Standard Error)	(0.002077)	(0.002018)	(0.002254)	(0.002315)	(0.002417)
$R^2$	0.0177	0.0231	0.0070	0.0327	0.1137

\*, \*\*, \*\*\* indicate significance at 95%, 99%, 99.9% level, respectively.

**Table 5:** Results of the OLS regressions of equations (19) and (20)

Indeed, for all five parametric forms it holds that the MSEs and Gini differences are higher, the higher the reported Gini coefficients are. This is noteworthy given that, by their association with zeromodal densities, the Pareto, Rohde and Chotikapanich LCs should be able to deal particularly well with inegalitarian distributions. The  $R^2$  shows that even a considerable portion of the each parametrization's variation in MSEs can be explained by the Gini levels. Possibly, the lower data quality in some inegalitarian countries is an issue here. This can be seen as an additional reason why it is not advisable to make LC selections solely based on MSE or Gini difference without considering the density shape.<sup>16</sup>

Parametric Form	Pareto	Rohde	Chotikapanich	Lognormal	Weibull
Corr(MSE, Gini Diff)	0.1725	0.2039	0.1592	0.2251	0.3028

**Table 6:** Empirical Correlation between MSE and Gini difference for the five Parametric Forms

<sup>16</sup>On the other hand, when a income distribution becomes extremely inegalitarian, the argumentation accompanying Figures (7) and (8) applies: Even unimodal distributions are then so skewed that they are downward-sloping on most of their domain, diminishing the relevance of modality in these special cases.

The different implications of Tables (3) and (4) according to MSE or Gini difference also warrant a closer look: Table (6) reveals that the correlation of these two measures over all 1628 LCs is rather low for all five parametrizations. In fact, for only 554 out of 1628 LCs the same parametric form achieves both the lowest MSE and Gini difference. This is evidence that these two measures captures different aspects of the goodness of fit of an LC: A parametric LC may obtain a low MSE at the nine given data points, its overall form, however, may not be in line with the reported Gini. So both criteria have their virtues, however, neither unambiguously chooses LCs with the correct modality, thus the researcher should restrict the choice of LCs upfront.

An analysis of LC fittings and their associated modalities in particular countries or regions yields further insights. In the cross-sectional Tables (9) and (10) in Appendix C, for each country the LC forms with the lowest MSE or Gini difference are shown - and the LCs when only those with the correct implied modality are considered. For instance, zeromodal Ghana (Gini 0.4600) is typical for many African countries in the sense that the Lognormal LC is MSE-minimizing but the Rohde LC has the lowest MSE among the zeromodality-implying forms. One again notes that the Gini difference results are very diverse across countries, even for countries with very similar characteristics: Egalitarian and unimodal Slovakia and Slovenia both have the Lognormal LC as MSE-minimizing, but the Gini difference is lowest for the Weibull LC in Slovakia and the Lognormal LC in Slovenia. These results are borne out by the Regional Tables (11), (12) (13) and (14) in Appendix C. For every region I consider the Weibull-implied unimodal and zeromodal settings separately.<sup>17</sup> The results of the performance comparison are very similar for (unimodal) Western and Eastern European countries: The Lognormal LC obtains the best fit in terms of MSE and the Weibull in terms of the Gini difference. What is striking about the African estimation is that even among the unimodal settings, the Pareto LC achieves the lowest Gini difference. Only when the unimodality restriction is imposed, the Lognormal LC outperforms. It is also noteworthy that the Weibull LC does poorly in the African sample, both in the zeromodal and unimodal groups: It has the second-highest MSE and the highest Gini difference of all five forms. And it does not fare much better in Asia and in the Americas. In Asia, unimodal settings are best captured by the Lognormal LC, while the Pareto and Rohde forms do well for the zeromodal observations. In the Americas, MSE and Gini difference point to the Lognormal LC for both groups; after considering modality, Rohde's and Chotikapanich's forms outperform the others in the zeromodal settings.

Outside Europe, the Weibull LC thus mostly seems to do worse than the other forms. Obviously, its flexibility to encompass unimodal and zeromodal densities - and its ability to give a hint at the underlying modality - comes at a cost. In many circumstances the other, more specialized, forms obtain a better fit in terms of MSE or Gini difference. The empirical analysis has also shown that once modality is correctly taken into account the Lognormal

---

<sup>17</sup>In Europe (West) and Europe (East) only the results for the unimodals are reported, because they make up, respectively, 479 out of 481 and 257 out of 261 LCs.

LC is the best for most unimodal settings while the Pareto, Rohde and Chotikapanich forms all have some zeromodal settings where they do best. The results are generally more mixed with Gini difference rather than MSE as goodness of fit criterion.

## 6 Conclusion

This paper has derived a relation between the LC and the modality of its density function. Given any parametric LC, its third derivative gives an indication of how the underlying density looks like without having to derive it. Even LCs whose graphs appear similar can have very different densities, as one can see with the zeromodal Pareto, Chotikapanich and Rohde forms compared to the unimodal Lognormal and the flexible Weibull.

Both the Monte Carlo simulation and the empirical analysis show that LC fitting based on MSE or Gini difference can lead to an LC whose density has an incorrect modality. The resulting implications about the relative numbers of rich, middle-class and poor earners can thus be highly misleading. This paper therefore argues that researchers should limit their choice of LCs to those forms associated with the appropriate density modality (e.g. by checking the third derivative of the LC). In case the shape of the income density is unknown, more information should be gathered, or the parameter estimate of the best-fitting Weibull LC can give a hint. Indeed, from our empirical analysis one may conclude that one main asset of the Weibull LC is indicating the modality, while the other, more specialized, LCs often obtain lower MSE or Gini differences in most unimodal or zeromodal settings.

An extension of this paper would be to go to LCs with more than one parameter. Theorem (2) on the relation between the LC and the modality of the density holds for all LCs, but for an empirical analysis one would need a dataset with more than decile points.

Furthermore, the complementarity of the two goodness of fit criteria, MSE and Gini difference, is worth pointing out. While the MSE focuses on the fit of the curve at the given data points, the Gini difference takes into account the appropriateness of the overall LC. I find that on my dataset these two measures have only a weak correlation and frequently lead to different results. A more thorough investigation into these and alternative goodness of fit criteria would be interesting for future research.

## References

- Aitchison, J. and J. Brown (1957). *The Lognormal Distribution*. Cambridge University Press.
- Arnold, B. C. (1983). *Pareto Distributions*. International Cooperative Publishing House.
- Arnold, B. C. (1987). *Majorization and the Lorenz Curve: A Brief Introduction*. Springer.
- Basmann, R., K. Hayes, J. Johnson, and D. Slottje (2002). A General Functional Form for Approximating the Lorenz Curve. *Journal of Econometrics* 43, 77–90.

- Castañeda, A., J. Díaz-Giménez, and J.-V. Ríos-Rull (2003). Accounting for the U.S. Earnings and Wealth Inequality. *Journal of Political Economy* 111, 818–857.
- Chotikapanich, D. (1993). A Comparison of Alternative Functional Forms for the Lorenz Curve. *Economics Letters* 41, 129–138.
- Cowell, F. and M.-P. Victoria-Feser (2007). Robust Stochastic Dominance: A Semi-Parametric Approach. *Journal of Economic Inequality* 5, 21–37.
- Dagum, C. (1977). A New Model of Personal Income Distribution: Specification and Estimation. *Economie Appliquée* 30, 413–437.
- Dagum, C. (1999). A Study on the Distributions of Income, Wealth and Human Capital. *Revue Européenne des Sciences Sociales* 113, 231–268.
- Deininger, K. and L. Squire (1996). A New Data Set Measuring Income Inequality. *The World Bank Economic Review* 10, 565–591.
- Gastwirth, J. L. (1971). A General Definition of the Lorenz Curve. *Econometrica* 39, 1037–1039.
- Hasegawa, H. and H. Kozumi (2003). Estimation of Lorenz Curves: A Bayesian Nonparametric Approach. *Journal of Econometrics* 115, 277–291.
- Kakwani, N. and N. Podder (1973). On the Estimation of the Lorenz Curve from Grouped Observations. *International Economic Review* 14, 278–292.
- Kakwani, N. and N. Podder (1976). Efficient Estimation of the Lorenz Curve and Associated Inequality Measures from Grouped Observations. *Econometrica* 44, 137–149.
- Kakwani, N. C. (1980). *Income Inequality and Poverty: Methods of Estimation and Policy Applications*. Oxford University Press.
- Kleiber, C. (2008). A Guide to the Dagum Distribution. In D. Chotikapanich (Ed.), *Modeling Income Distributions and Lorenz Curves (Economic Studies in Inequality)*, pp. 97–117. Springer.
- Kullback, S. and R. Leibler (1951). On Information and Sufficiency. *Annals of Mathematical Statistics* 22, 79–86.
- Lorenz, M. O. (1905). Methods of Measuring the Concentration of Wealth. *Publications of the American Statistical Association* 9, 209–219.
- Mankiw, N. G., D. Romer, and D. N. Weil (1992). A Contribution to the Empirics of Economic Growth. *The Quarterly Journal of Economics* 107, 407–437.
- McDonald, J. B. (1984). Some Generalized Functions for the Size Distribution of Income. *Econometrica* 52, 647–663.
- McDonald, J. B. and M. Ransom (2008). The Generalized Beta Distribution as a Model for the Distribution of Income: Estimation of Related Measures of Inequality. In D. Chotikapanich (Ed.), *Modeling Income Distributions and Lorenz Curves (Economic Studies in Inequality)*, pp. 147–166. Springer.

- Minoiu, C. and S. G. Reddy (2009). Estimating Poverty and Inequality from Grouped Data: How Well Do Parametric Methods Perform? *Journal of Income Distribution* 18, 160–178.
- Rohde, N. (2009). An Alternative Functional Form for Estimating the Lorenz Curve. *Economics Letters* 100, 61–63.
- Ryu, H. K. and D. J. Slottje (1999). Parametric Approximations of the Lorenz Curve. In J. Silber (Ed.), *Handbook of Income Inequality Measurement*, pp. 291–314. Springer.
- Sarabia, J. M. (2008). Parametric Lorenz Curves: Models and Applications. In D. Chotikapanich (Ed.), *Modeling Income Distributions and Lorenz Curves (Economic Studies in Inequality)*, pp. 167–190. Springer.
- The World Bank (2011). Distribution of Income and Consumption. World Development Indicators.
- United Nations University - World Institute for Development Economics Research (2008). *UNU-WIDER World Income Inequality Database*. Version 2.0c.
- Villasenor, J. and B. Arnold (1989). Elliptical Lorenz Curves. *Journal of Econometrics* 40, 327–338.

## 7 Appendix

### 7.1 A: Proof of Theorem (3)

In order to derive the LC associated with the Weibull density (10), I follow the steps outlined in Section 2. The cumulative Weibull distribution is given in (11):

$$\pi = F(x) = 1 - e^{-\left(\frac{x}{a}\right)^b}$$

Its inverse  $x = F^{-1}(\pi)$  can be obtained as

$$\pi = 1 - e^{-\left(\frac{x}{a}\right)^b} \iff -\left(\frac{x}{a}\right)^b = \log(1 - \pi) \iff x = F^{-1}(\pi) = a\left(-\log(1 - \pi)\right)^{\frac{1}{b}} \quad (21)$$

Using (2), I obtain the slope of the LC by dividing  $F^{-1}(\pi)$  by the distributional mean  $\mu$ , which for the Weibull distribution is given by  $\mu = a\Gamma\left(1 + \frac{1}{b}\right)$  (involving the Gamma function  $\Gamma(\alpha) = \int_0^\infty t^{\alpha-1}e^{-t}dt$ ). This leads to the scaling parameter  $a$  being canceled out:

$$L'(\pi) = \frac{a}{\mu}\left(-\log(1 - \pi)\right)^{\frac{1}{b}} = \frac{a}{a\Gamma\left(1 + \frac{1}{b}\right)}\left(-\log(1 - \pi)\right)^{\frac{1}{b}} = \frac{\left(-\log(1 - \pi)\right)^{\frac{1}{b}}}{\Gamma\left(1 + \frac{1}{b}\right)} \quad (22)$$

The LC is then given by integration:

$$\int \frac{\left(-\log(1 - \pi)\right)^{\frac{1}{b}}}{\Gamma\left(1 + \frac{1}{b}\right)} d\pi = -\frac{\Gamma\left(-\log(1 - \pi), 1 + \frac{1}{b}\right)}{\Gamma\left(1 + \frac{1}{b}\right)} + Const \quad (23)$$

where  $\Gamma(x, \alpha)$  is the upper incomplete Gamma function  $\Gamma(x, \alpha) = \int_x^\infty t^{\alpha-1} e^{-t} dt$ .<sup>18 19</sup>

Turning to the additive constant, one can easily verify that it has to equal 1 so that the LC properties  $L(0) = 0$  and  $L(1) = 1$  (see Definition (1)) are fulfilled:

$$L(0) = -\frac{\Gamma(-\log(1-0), 1 + \frac{1}{b})}{\Gamma(1 + \frac{1}{b})} + 1 = -\frac{\int_0^\infty t^{1+\frac{1}{b}-1} e^{-t} dt}{\int_0^\infty t^{1+\frac{1}{b}-1} e^{-t} dt} + 1 = -1 + 1 = 0 \quad (25)$$

$$L(1) = -\frac{\Gamma(-\log(0), 1 + \frac{1}{b})}{\Gamma(1 + \frac{1}{b})} + 1 = -\frac{\int_0^\infty t^{1+\frac{1}{b}-1} e^{-t} dt}{\int_0^\infty t^{1+\frac{1}{b}-1} e^{-t} dt} + 1 = 0 + 1 = 1 \quad (26)$$

This completes the proof that the Weibull LC is

$$L(\pi) = 1 - \frac{\Gamma(-\log(1-\pi), 1 + \frac{1}{b})}{\Gamma(1 + \frac{1}{b})}$$

which is the form proposed in Theorem (3).<sup>20</sup>

## 7.2 B: Analysis of the Weibull LC's third derivative (13)

The first three derivatives of the Weibull LC (12) are

$$L'(\pi) = \frac{(-\log(1-\pi))^{\frac{1}{b}}}{\Gamma(1 + \frac{1}{b})}; \quad L''(\pi) = \frac{(-\log(1-\pi))^{\frac{1}{b}-1}}{\Gamma(1 + \frac{1}{b}) b(1-\pi)} \quad (28)$$

$$L'''(\pi) = \frac{(-\log(1-\pi))^{\frac{1}{b}-2}}{\Gamma(1 + \frac{1}{b}) b^2(1-\pi)^2} \left[ 1 - b + b(-\log(1-\pi)) \right] \quad (29)$$

<sup>18</sup>The Gamma function  $\Gamma(\alpha) = \int_0^\infty t^{\alpha-1} e^{-t} dt$  is the sum of the lower incomplete Gamma function  $\gamma(x, \alpha) = \int_0^x t^{\alpha-1} e^{-t} dt$  and the upper incomplete Gamma function  $\Gamma(x, \alpha) = \int_x^\infty t^{\alpha-1} e^{-t} dt$ . When working with the MatLab software, it should be noted that a different definition of the lower incomplete Gamma function ("gammainc(x,α)") is used there:  $\gamma(x, \alpha) = \frac{\int_0^x t^{\alpha-1} e^{-t} dt}{\Gamma(\alpha)}$ . So one has to compute "gamma(α)\*(1-gammainc(x,α))" to obtain the values of the upper incomplete Gamma function according to the definition in this paper.

<sup>19</sup>In order to verify the primitive (23), one can differentiate it using Leibniz's Rule for differentiation under the integral sign, yielding

$$\begin{aligned} -\frac{1}{\Gamma(1 + \frac{1}{b})} \frac{\partial \int_{-\log(1-\pi)}^\infty t^{1+\frac{1}{b}-1} e^{-t} dt}{\partial \pi} &= -\frac{1}{\Gamma(1 + \frac{1}{b})} \left[ 0 - (-\log(1-\pi))^{\frac{1}{b}} e^{-[-(\log(1-\pi))]} \frac{1}{1-\pi} + 0 \right] \\ &= \frac{(-\log(1-\pi))^{\frac{1}{b}}}{\Gamma(1 + \frac{1}{b})} \end{aligned} \quad (24)$$

This proves that the given LC is indeed the primitive of its slope (22).

<sup>20</sup>Another equally valid expression for the Weibull LC is

$$\frac{1}{\Gamma(1 + \frac{1}{b})} \left[ (\pi - 1)(-\log(1-\pi))^{\frac{1}{b}} - \frac{1}{b} \Gamma\left(-\log(1-\pi), \frac{1}{b}\right) \right] + 1 \quad (27)$$

because differentiating it also leads to the slope in (22).



From Theorem (2) it directly follows that  $L'''(\pi)$  is positive for  $b \leq 1$ , implying a zero-modal density, and sign-changing for  $b > 1$ , implying a unimodal density. In the latter case,  $L'''(\pi) = 0$  occurs at the point  $\tilde{\pi}$  referring to the mode  $\tilde{x} = a \left(1 - \frac{1}{b}\right)^{\frac{1}{b}}$  of the Weibull density.

One can, however, also verify these properties without relying on Theorem (2), by looking at (29): Recall that  $b > 0$  and  $0 \leq \pi \leq 1$ , so the ratio in (29) is unambiguously positive. It is the term in square brackets which determines the sign of  $L'''(\pi)$ : For  $0 < b \leq 1$ , this term is positive as well and hence, the third derivative is positive. By (5),  $f'(x)$  is then negative for all  $x$ , which corresponds to the zero-modality of the Weibull density for  $0 < b \leq 1$ . On the other hand, if  $b > 1$ , the term in square brackets can become negative:

$$1 - b + b(-\log(1 - \pi)) < 0 \iff \pi < \tilde{\pi} = 1 - e^{\frac{1}{b}-1} \quad (30)$$

In the case of a unimodal Weibull density, the third derivative of the LC is negative for  $\pi$  below a threshold value  $\tilde{\pi}$ , referring to the upward-sloping part of the density. The more concentrated the Weibull density (thus the higher  $b$ ), the higher this threshold because the higher the mode. In fact, the change from a negative to a positive third LC derivative occurs just at the Weibull mode  $\tilde{x} = a \left(1 - \frac{1}{b}\right)^{\frac{1}{b}}$ :

$$1 - b + b(-\log(1 - 1 + e^{-\left(\frac{\tilde{x}}{a}\right)^b})) = 0 \iff \tilde{x} = a \left(1 - \frac{1}{b}\right)^{\frac{1}{b}} \quad (31)$$

This completes the proof.

### 7.3 C: Large Tables

Parametric LC Density Modality Parameter	Pareto zero $\alpha > 1$	Rohde zero $\beta > 1$	Chotikapanich zero $k > 0$	Lognormal uni $b > 0$	Weibull zero/uni $\sigma > 0$
WEIBULL with $b = 3$ (unimodal, Gini 0.2063)					
Est. Mean Parameter (Standard Dev.)	3.0976 (0.0187)	2.2010 (0.0120)	1.2372 (0.0096)	0.3653 (0.0027)	<i>3.0007</i> <i>(0.0249)</i>
MSE (Standard Dev.)	0.000995 (0.000024)	0.000142 (0.000007)	<b>0.000073</b> (0.000004)	0.000110 (0.000007)	<i>0.000000</i> <i>(0.000000)</i>
Gini Difference (Standard Dev.)	0.013807 (0.001389)	0.006809 (0.001455)	0.005177 (0.001485)	<b>0.002543</b> (0.001375)	<i>0.001218</i> <i>(0.000918)</i>
K-L Distance	7.5213	4.5157	4.0850	<b>0.3215</b>	<i>0.0002</i>
Integral Diff.	0.8367	0.4829	0.4249	<b>0.2510</b>	<i>0.0002</i>
WEIBULL with $b = 1.5$ (unimodal, Gini 0.3700)					
Est. Mean Parameter (Standard Dev.)	1.9460 (0.0094)	1.4885 (0.0056)	2.3695 (0.0183)	0.6701 (0.0046)	<i>1.5002</i> <i>(0.0122)</i>
MSE (Standard Dev.)	0.002647 (0.000055)	0.000346 (0.000016)	<b>0.000092</b> (0.000004)	0.000277 (0.000017)	<i>0.000000</i> <i>(0.000000)</i>
Gini Difference (Standard Dev.)	0.024251 (0.002252)	0.013346 (0.002274)	0.007750 (0.002346)	<b>0.005665</b> (0.002295)	<i>0.001890</i> <i>(0.001425)</i>
K-L Distance	9.4520	5.8783	4.5657	<b>0.3803</b>	<i>0.0001</i>
Integral Diff.	0.8935	0.5254	0.4161	<b>0.2563</b>	<i>0.0001</i>
WEIBULL with $b = 0.5$ (zeromodal, Gini 0.7500)					
Est. Mean Parameter (Standard Dev.)	1.1771 (0.0040)	1.0722 (0.0018)	7.9695 (0.1295)	1.6074 (0.0136)	<i>0.5002</i> <i>(0.0056)</i>
MSE (Standard Dev.)	0.003299 (0.000122)	0.000459 (0.000031)	0.000462 (0.000037)	<b>0.000303</b> (0.000031)	<i>0.000001</i> <i>(0.000001)</i>
Gini Difference (Standard Dev.)	0.011570 (0.004371)	0.023295 (0.003982)	<b>0.003186</b> (0.002415)	0.006033 (0.003574)	<i>0.003116</i> <i>(0.002363)</i>
K-L Distance	25.3942	21.1329	12.7451	<b>5.4718</b>	<i>0.0010</i>
Integral Diff.	1.3470	0.9523	0.6593	<b>0.5500</b>	<i>0.0010</i>
LOGNORMAL with $\sigma = 0.4$ (unimodal, Gini 0.2227)					
Est. Mean Parameter (Standard Dev.)	2.8449 (0.0176)	2.0608 (0.0111)	1.3511 (0.0106)	<i>0.4000</i> <i>(0.0030)</i>	2.7339 (0.0231)
MSE (Standard Dev.)	0.000534 (0.000016)	<b>0.000037</b> (0.000002)	0.000065 (0.000005)	<i>0.000000</i> <i>(0.000000)</i>	0.000127 (0.000008)
Gini Difference (Standard Dev.)	0.009462 (0.001600)	0.004536 (0.001616)	0.004096 (0.001609)	<i>0.001321</i> <i>(0.000992)</i>	<b>0.001689</b> (0.001224)
K-L Distance	7.1015	3.7911	3.3431	<i>0.0001</i>	<b>0.2722</b>
Integral Diff.	0.6738	0.3922	0.3880	<i>0.0001</i>	<b>0.2529</b>
LOGNORMAL with $\sigma = 0.8$ (unimodal, Gini 0.4284)					
Est. Mean Parameter (Standard Dev.)	1.7162 (0.0103)	1.3574 (0.0059)	2.8746 (0.0300)	<i>0.8000</i> <i>(0.0072)</i>	1.2180 (0.0134)
MSE (Standard Dev.)	0.001532 (0.000048)	<b>0.000098</b> (0.000007)	0.000449 (0.000036)	<i>0.000001</i> <i>(0.000001)</i>	0.000337 (0.000027)
Gini Difference (Standard Dev.)	0.017261 (0.003466)	0.008374 (0.003387)	<b>0.004837</b> (0.003005)	<i>0.002781</i> <i>(0.002094)</i>	0.005762 0.003255
K-L Distance	9.1313	4.4648	2.6921	<i>0.0001</i>	<b>0.2440</b>
Integral Diff.	0.7534	0.4185	0.4078	<i>0.0001</i>	<b>0.2632</b>
LOGNORMAL with $\sigma = 1.5$ (unimodal, Gini 0.7112)					
Est. Mean Parameter (Standard Dev.)	1.2146 (0.0075)	1.0874 (0.0035)	7.0251 (0.1879)	<i>1.4994</i> <i>(0.0216)</i>	0.5464 0.0105
MSE (Standard Dev.)	0.001797 (0.000113)	<b>0.000077</b> (0.000006)	0.001465 (0.000088)	<i>0.000001</i> <i>(0.000002)</i>	0.000339 (0.000035)
Gini Difference (Standard Dev.)	0.011858 (0.006513)	0.015570 (0.006530)	<b>0.007375</b> (0.005557)	<i>0.005470</i> <i>(0.004258)</i>	0.008452 0.005834
K-L Distance	12.9917	6.9790	1.2474	<i>0.0006</i>	<b>0.2649</b>
Integral Diff.	0.9196	<b>0.5018</b>	0.5525	<i>0.0006</i>	0.8313

**Table 7:** MC simulation with Weibull- and Lognormally-distributed income data

\*Printed in italics are the results for the LC form associated with the sampled density; printed in bold are the results for best-performing LC apart from this one.

Parametric LC Density Modality Parameter	Pareto zero $\alpha > 1$	Rohde zero $\beta > 1$	Chotikapanich zero $k > 0$	Lognormal uni $b > 0$	Weibull zero/uni $\sigma > 0$
CHOTIKAPANICH with $k = 1.5$ (zeromodal, Gini 0.2411)					
Est. Mean Parameter (Standard Dev.)	2.6629 (0.0100)	1.9289 (0.0063)	<i>1.4997</i> <i>0.0076</i>	0.4393 (0.0021)	2.4466 0.0132
MSE (Standard Dev.)	0.001058 (0.000024)	<b>0.000039</b> (0.000005)	<i>0.000000</i> <i>(0.000000)</i>	0.000085 (0.000006)	0.000084 0.000005
Gini Difference (Standard Dev.)	0.009927 (0.001073)	<b>0.001834</b> (0.001028)	<i>0.000905</i> <i>(0.000682)</i>	0.002820 (0.001120)	0.005621 (0.001154)
K-L Distance	9.5512	2.8658	<i>0.0078</i>	<b>0.3666</b>	0.3795
Integral Diff.	0.8664	<b>0.2753</b>	<i>0.0004</i>	0.3645	0.4133
CHOTIKAPANICH with $k = 6$ (zeromodal, Gini 0.6716)					
Est. Mean Parameter (Standard Dev.)	1.2680 (0.0036)	1.1150 (0.0017)	<i>5.9987</i> <i>(0.05608)</i>	1.3620 (0.0079)	0.6212 0.0047
MSE (Standard Dev.)	0.006386 (0.000134)	0.001389 (0.000058)	<i>0.000001</i> <i>(0.000001)</i>	0.001395 (0.000061)	<b>0.000364</b> (0.000031)
Gini Difference (Standard Dev.)	0.020642 (0.003068)	0.024198 (0.002756)	<i>0.002263</i> <i>(0.001714)</i>	0.007174 (0.007174)	<b>0.002291</b> (0.002291)
K-L Distance	17.0014	12.4387	<i>0.0013</i>	0.6279	<b>0.3892</b>
Integral Diff.	1.2194	0.7960	<i>0.0003</i>	0.5016	<b>0.4134</b>
ROHDE with $\beta = 2$ (zeromodal, Gini 0.2274)					
Est. Mean Parameter (Standard Dev.)	2.7622 (0.0105)	<i>2.0003</i> <i>(0.0068)</i>	1.4132 (0.0072)	0.4165 (0.0020)	2.6085 (0.0142)
MSE (Standard Dev.)	0.000652 (0.000019)	<i>0.000000</i> <i>(0.000000)</i>	<b>0.000031</b> (0.000004)	0.000039 (0.000002)	0.000176 0.000008
Gini Difference (Standard Dev.)	0.006378 (0.001022)	<i>0.000858</i> <i>(0.000648)</i>	<b>0.001019</b> (0.000744)	0.004195 (0.001085)	0.005946 (0.001112)
K-L Distance	8.8778	<i>0.0073</i>	1.3711	<b>0.3537</b>	0.4619
Integral Diff.	0.7665	<i>0.0003</i>	<b>0.2602</b>	0.3757	0.4880
ROHDE with $\beta = 1.1$ (zeromodal, Gini 0.6725)					
Est. Mean Parameter (Standard Dev.)	1.2428 (0.0036)	<i>1.1000</i> <i>(0.0017)</i>	6.4609 (0.0729)	1.4276 (0.0091)	0.5814 0.0049
MSE (Standard Dev.)	0.001730 (0.000080)	<i>0.000001</i> <i>(0.000001)</i>	0.001475 (0.000071)	<b>0.000084</b> (0.000005)	0.000503 (0.000034)
Gini Difference (Standard Dev.)	0.002646 (0.002013)	<i>0.002377</i> <i>(0.001815)</i>	0.021085 (0.003267)	<b>0.014771</b> (0.003077)	0.024003 (0.003052)
K-L Distance	13.4991	<i>0.0008</i>	1.6146	<b>0.4092</b>	0.5860
Integral Diff.	0.9072	<i>0.0002</i>	0.8571	<b>0.4850</b>	0.7034
PARETO with $\alpha = 2.5$ (zeromodal, Gini 0.2500)					
Est. Mean Parameter (Standard Dev.)	<i>2.5015</i> <i>(0.0439)</i>	1.8778 (0.0284)	1.5277 (0.0357)	0.4574 (0.0105)	2.3918 (0.0607)
MSE (Standard Dev.)	<i>0.000000</i> <i>(0.000001)</i>	0.000790 (0.000065)	0.001175 (0.000097)	<b>0.000692</b> (0.000057)	0.001500 (0.000100)
Gini Difference (Standard Dev.)	<i>0.004301</i> <i>(0.003536)</i>	<b>0.004429</b> (0.003492)	0.005958 (0.003942)	0.005108 (0.004284)	0.004448 0.003799
K-L Distance	<i>0.0402</i>	1.9287	2.3998	<b>0.6723</b>	1.1494
Integral Diff.	<i>0.0021</i>	0.7803	0.8790	<b>0.6811</b>	0.8566
PARETO with $\alpha = 1.3$ (zeromodal, Gini 0.6250)					
Est. Mean Parameter (Standard Dev.)	<i>1.3292</i> <i>(0.0563)</i>	1.1407 (0.0284)	5.2534 (1.6184)	1.2554 (0.1481)	0.6971 (0.0817)
MSE (Standard Dev.)	<i>0.000004</i> <i>(0.000005)</i>	<b>0.001823</b> (0.000153)	0.005817 (0.000566)	0.001855 (0.000153)	0.003940 (0.000293)
Gini Difference (Standard Dev.)	<i>0.039792</i> <i>(0.031952)</i>	0.035512 (0.031415)	0.037353 (0.035946)	0.032828 (0.033818)	<b>0.031848</b> (0.036224)
K-L Distance	<i>2.9041</i>	0.9601	1.6448	<b>0.7854</b>	1.0591
K-L Distance	<i>0.1641</i>	0.8624	1.1855	<b>0.8491</b>	1.2143

**Table 8:** MC simulation with Chotikapanich-, Rohde- and Pareto-distributed income data

\*Printed in italics are the results for the LC form associated with the sampled density; printed in bold are the results for best-performing LC apart from this one.

Country	Region	Rep. Gini	Wei-impl. Mod	Lowest MSE	Lowest Mod-MSE	Lowest Gini D.	Lowest Mod-Gini D.
Argentina	The Americas	0.5043	zero	Log	Cho	Log	Roh
Armenia	Europe (East)	0.5551	zero	Log	Roh	Roh	Roh
Australia	Asia	0.3332	uni	Log	Log	Wei	Wei
Austria	Europe (West)	0.2926	uni	Log	Log	Wei	Wei
Azerbaijan	Europe (East)	0.3730	uni	Log	Log	Wei	Wei
Bangladesh	Asia	0.3869	uni	Log	Log	Par	Log
Barbados	The Americas	0.4638	uni	Wei	Wei	Wei	Wei
Belarus	Europe (East)	0.2470	uni	Log	Log	Wei	Wei
Belgium	Europe (West)	0.3265	uni	Log	Log	Wei	Wei
Bolivia	The Americas	0.6170	zero	Log	Roh	Wei	Wei
Brazil	The Americas	0.5879	zero	Log	Roh	Cho	Cho
Bulgaria	Europe (East)	0.3320	uni	Log	Log	Wei	Wei
Burkina Faso	Africa	0.6959	zero	Log	Roh	Roh	Roh
Cameroon	Africa	0.6098	zero	Log	Roh	Wei	Wei
Canada	The Americas	0.3245	uni	Log	Log	Wei	Wei
Central Afr. Rep.	Africa	0.6320	zero	Log	Roh	Par	Par
Chile	The Americas	0.5521	zero	Log	Roh	Cho	Cho
China	Asia	0.3730	uni	Log	Log	Log	Log
Colombia	The Americas	0.5684	zero	Log	Roh	Cho	Cho
Costa Rica	The Americas	0.4579	uni	Log	Log	Log	Log
Croatia	Europe (East)	0.3800	uni	Log	Log	Wei	Wei
Cuba	The Americas	0.2700	uni	Wei	Wei	Cho	Log
Czech Republic	Europe (East)	0.2310	uni	Log	Log	Par	Log
Czechoslovakia*	Europe (East)	0.2010	uni	Log	Log	Wei	Wei
Denmark	Europe (West)	0.3500	uni	Wei	Wei	Wei	Wei
Dominican Rep.	The Americas	0.5202	zero	Log	Roh	Log	Cho
Ecuador	The Americas	0.5604	zero	Log	Roh	Log	Cho
Egypt	Africa	0.5378	zero	Log	Roh	Roh	Roh
El Salvador	The Americas	0.5190	zero	Log	Roh	Log	Wei
Estonia	Europe (East)	0.3890	uni	Log	Log	Wei	Wei
Ethiopia	Africa	0.4588	zero	Log	Roh	Par	Par
Fiji	Asia	0.4600	uni	Log	Log	Wei	Wei
Finland	Europe (West)	0.2650	uni	Log	Log	Wei	Wei
France	Europe (West)	0.2800	uni	Log	Log	Par	Log
Gambia	Africa	0.6923	zero	Log	Roh	Roh	Roh
Georgia	Europe (East)	0.4580	uni	Log	Log	Par	Log
Germany*	Europe (West)	0.2988	uni	Log	Log	Log	Log
Germany (East)*	Europe (East)	0.2332	uni	Log	Log	Wei	Wei
Germany (West)*	Europe (West)	0.3075	uni	Log	Log	Log	Log
Ghana	Africa	0.4611	zero	Log	Roh	Par	Par
Greece	Europe (West)	0.3300	uni	Log	Log	Wei	Wei
Guatemala	The Americas	0.5980	zero	Log	Roh	Cho	Cho
Ghana	Africa	0.6852	zero	Roh	Roh	Roh	Roh
Guyana	The Americas	0.5364	zero	Log	Par	Cho	Cho
Haiti	The Americas	0.5921	zero	Log	Roh	Cho	Cho
Honduras	The Americas	0.5111	zero	Log	Roh	Log	Cho
Hong Kong	Asia	0.5200	zero	Log	Roh	Wei	Wei
Hungary	Europe (East)	0.2590	uni	Log	Log	Wei	Wei
India	Asia	0.3900	uni	Log	Log	Log	Log
Indonesia	Asia	0.3919	uni	Log	Log	Cho	Log
Ireland	Europe (West)	0.3429	uni	Log	Log	Wei	Wei
Israel	Asia	0.3722	uni	Log	Log	Log	Log
Italy	Europe (West)	0.3587	uni	Log	Log	Wei	Wei
Jamaica	The Americas	0.5507	zero	Log	Roh	Wei	Wei
Japan	Asia	0.4223	uni	Log	Log	Wei	Wei
Jordan	Asia	0.3231	uni	Log	Log	Par	Log
Kazakhstan	Asia	0.5638	zero	Log	Roh	Wei	Wei
Kenya	Africa	0.5700	zero	Log	Roh	Wei	Wei
Korea (Rep)	Asia	0.3718	uni	Wei	Wei	Wei	Wei
Kyrgyzstan	Asia	0.4140	uni	Log	Log	Wei	Wei

**Table 9:** Cross-Sectional Overview: Statistics and Results by Countries (Part 1), Year 2000 or nearest

\*The data refers to the year 2000 (or nearest to 2000 in case of unavailability; Czechoslovakia: 1988). German data is reported both for the whole country and for East and West separately. Par, Roh, Cho, Log, Wei refer to the Pareto, Rohde, Chotikapanich, Lognormal and Weibull LCs, respectively. The third column gives the reported Gini and the fourth column the density modality implied by Weibull LC fitting. The fifth and seventh column show the best-fitting among all five forms (according to MSE or Gini difference); the sixth and eighth just among those forms with the correct Weibull-implied modality.

Country	Region	Rep. Gini	Wei-impl. Mod	Lowest MSE	Lowest Mod-MSE	Lowest Gini D.	Lowest Mod-Gini D.
Latvia	Europe (East)	0.3270	uni	Log	Log	Par	Log
Lesotho	Africa	0.6850	zero	Log	Roh	Log	Par
Lithuania	Europe (East)	0.3550	uni	Log	Log	Wei	Wei
Luxembourg	Europe (West)	0.3029	uni	Log	Log	Log	Log
Macedonia	Europe (East)	0.3460	uni	Wei	Wei	Wei	Wei
Madagascar	Africa	0.5950	zero	Log	Roh	Par	Par
Malawi	Africa	0.5670	zero	Log	Roh	Par	Par
Malaysia	Asia	0.4848	zero	Log	Roh	Par	Par
Mali	Africa	0.7862	zero	Log	Roh	Wei	Wei
Mauritania	Africa	0.6908	zero	Log	Roh	Roh	Roh
Mexico	The Americas	0.5325	zero	Log	Roh	Log	Cho
Moldova	Europe (East)	0.4214	uni	Log	Log	Log	Log
Morocco	Africa	0.5240	zero	Roh	Roh	Par	Par
Myanmar	Asia	0.3806	zero	Roh	Log	Cho	Log
Nepal	Asia	0.5046	zero	Log	Roh	Par	Par
Netherlands	Europe (West)	0.2500	uni	Log	Log	Wei	Wei
New Zealand	Asia	0.4040	uni	Log	Log	Wei	Wei
Nicaragua	The Americas	0.5442	zero	Log	Roh	Log	Cho
Nigeria	Africa	0.5290	zero	Log	Roh	Log	Wei
Norway	Europe (West)	0.2890	uni	Log	Log	Wei	Wei
Pakistan	Asia	0.3600	uni	Log	Log	Par	Log
Panama	The Americas	0.5705	zero	Log	Roh	Roh	Roh
Paraguay	The Americas	0.56925	zero	Log	Roh	Log	Wei
Peru	The Americas	0.4962	zero	Log	Roh	Log	Wei
Philippines	Asia	0.4818	zero	Log	Roh	Par	Par
Poland	Europe (East)	0.3450	uni	Log	Log	Wei	Wei
Portugal	Europe (West)	0.3600	uni	Log	Log	Wei	Wei
Puerto Rico	The Americas	0.3970	zero	Log	Log	Log	Log
Romania	Europe (East)	0.3100	uni	Log	Log	Wei	Wei
Russia	Europe (East)	0.4262	uni	Log	Log	Wei	Wei
Senegal	Africa	0.6117	zero	Log	Roh	Roh	Roh
Serbia & Monten.	Europe (East)	0.3730	uni	Log	Log	Wei	Wei
Sierra Leone	Africa	0.4400	uni	Log	Log	Par	Log
Slovakia	Europe (East)	0.2640	uni	Log	Log	Wei	Wei
Slovenia	Europe (East)	0.2460	uni	Log	Log	Log	Log
Somalia	Africa	0.3970	uni	Log	Log	Par	Log
South Africa	Africa	0.5452	zero	Par	Par	Par	Par
Spain	Europe (West)	0.3458	uni	Log	Log	Wei	Wei
Sri Lanka	Asia	0.5665	zero	Par	Par	Par	Par
Sudan	Africa	0.3980	uni	Log	Log	Cho	Log
Suriname	The Americas	0.5381	zero	Log	Roh	Log	Cho
Sweden	Europe (West)	0.2950	uni	Log	Log	Wei	Wei
Switzerland	Europe (West)	0.3596	uni	Log	Log	Wei	Wei
Taiwan	Asia	0.3194	uni	Log	Log	Log	Log
Tanzania	Africa	0.5973	zero	Log	Roh	Log	Cho
Thailand	Asia	0.5595	zero	Log	Roh	Par	Par
Trinidad & Tob.	The Americas	0.4027	uni	Log	Log	Log	Log
Turkey	Asia	0.5679	zero	Log	Roh	Log	Cho
Turkmenistan	Asia	0.3580	uni	Log	Log	Log	Log
Uganda	Africa	0.5363	zero	Log	Roh	Par	Par
Ukraine	Europe (East)	0.4916	zero	Log	Roh	Cho	Cho
United Kingdom	Europe (West)	0.3459	uni	Log	Log	Wei	Wei
United States	The Americas	0.4019	uni	Log	Log	Wei	Wei
Uruguay	The Americas	0.4430	uni	Log	Log	Log	Log
USSR*	Europe (East)	0.2890	uni	Log	Log	Wei	Wei
Uzbekistan	Asia	0.4717	uni	Log	Log	Roh	Log
Venezuela	The Americas	0.4410	uni	Log	Log	Log	Log
Yugoslavia*	Europe (East)	0.3300	uni	Wei	Wei	Wei	Wei
Zambia	Africa	0.6473	zero	Log	Roh	Par	Par
Zimbabwe	Africa	0.7461	zero	Log	Roh	Wei	Wei

**Table 10:** Cross-Sectional Overview: Statistics and Results by Countries (Part 2), Year 2000 or nearest

\*The data refers to the year 2000 (or nearest to 2000 in case of unavailability; USSR: 1989, Yugoslavia: 1978). Par, Roh, Cho, Log, Wei refer to the Pareto, Rohde, Chotikapanich, Lognormal and Weibull LCs, respectively. The third column gives the reported Gini and the fourth column the density modality implied by Weibull LC fitting. The fifth and seventh column show the best-fitting among all five forms (according to MSE or Gini difference); the sixth and eighth just among those forms with the correct Weibull-implied modality.

Parametric LC	Pareto	Rohde	Chotikapanich	Lognormal	Weibull
UNIMODAL EUROPE (WEST) (479 out of 481 LCs, mean reported Gini 0.3109)					
MSE	0.001034	0.000152	0.000251	<b>0.000054</b>	0.000247
(Standard Dev.)	(0.000614)	(0.000136)	(0.000249)	(0.000107)	(0.000215)
MSE/Lowest MSE	19.1481	2.8148	4.6481	1.0000	4.5741
Gini Difference	0.015578	0.009506	0.008211	0.004645	<b>0.004128</b>
(Standard Dev.)	(0.006301)	(0.005427)	(0.005124)	(0.005543)	(0.005659)
Gini Diff./Lowest Gini Diff.	3.7737	2.3028	1.9891	1.1252	1.0000
# Lowest MSE	2	0	0	<b>415</b>	62
# Lowest MSE (uni-mod)	-	-	-	<b>417</b>	62
# Lowest Gini Diff.	23	15	17	121	<b>303</b>
# Lowest Gini Diff. (uni-mod)	-	-	-	176	<b>303</b>
UNIMODAL EUROPE (EAST) (257 out of 261 LCs, mean reported Gini 0.2882)					
MSE	0.000771	0.000145	0.000269	<b>0.000051</b>	0.000284
(Standard Dev.)	(0.000558)	(0.000130)	(0.000260)	(0.000105)	(0.000209)
MSE/Lowest MSE	15.1176	2.8431	5.2745	1.0000	5.5686
Gini Difference	0.018299	0.013849	0.013511	0.009788	<b>0.009144</b>
(Standard Dev.)	(0.013201)	(0.013177)	(0.013554)	(0.013397)	(0.013579)
Gini Diff./Lowest Gini Diff.	2.0012	1.5145	1.4779	1.0704	1.0000
# Lowest MSE	0	0	0	<b>245</b>	12
# Lowest MSE (uni-mod)	-	-	-	<b>245</b>	12
# Lowest Gini Diff.	20	3	8	50	<b>176</b>
# Lowest Gini Diff. (uni-mod)	-	-	-	80	<b>177</b>

**Table 11:** Results from fitting LCs from Europe (West) and Europe (East) to five Parametric Forms (settings with Weibull-implied unimodality)

Parametric LC	Pareto	Rohde	Chotikapanich	Lognormal	Weibull
UNIMODAL AFRICA (10 out of 53 LCs, mean reported Gini 0.4142)					
MSE	0.001017	0.000329	0.001091	<b>0.000162</b>	0.000846
(Standard Dev.)	(0.000475)	(0.000148)	(0.000498)	(0.000136)	(0.000448)
MSE/Lowest MSE	6.2778	2.0309	6.7346	1.0000	5.2222
Gini Difference	<b>0.016574</b>	0.020897	0.022684	0.028610	0.033753
(Standard Dev.)	(0.027227)	(0.029384)	(0.030704)	(0.030209)	(0.030922)
Gini Diff./Lowest Gini Diff.	1.0000	1.2608	1.3686	1.7262	2.0365
# Lowest MSE	0	0	0	<b>10</b>	0
# Lowest MSE (uni-mod)	-	-	-	<b>10</b>	0
# Lowest Gini Diff.	<b>8</b>	1	1	0	0
# Lowest Gini Diff. (uni-mod)	-	-	-	<b>10</b>	0
ZEROMODAL AFRICA (43 out of 53 LCs, mean reported Gini 0.5997)					
MSE	0.001340	0.000292	0.001861	<b>0.000179</b>	0.000869
(Standard Dev.)	(0.000541)	(0.000457)	(0.000998)	(0.000432)	(0.000827)
MSE/Lowest MSE	7.4860	1.6312	10.3965	1.0000	4.8547
Gini Difference	<b>0.027235</b>	0.027647	0.031804	0.031391	0.035979
(Standard Dev.)	(0.020746)	(0.020721)	(0.025877)	(0.025259)	(0.027548)
Gini Diff./Lowest Gini Diff.	1.0000	1.0151	1.1678	1.1525	1.3211
# Lowest MSE	2	2	0	<b>39</b>	0
# Lowest MSE (zero-mod)	2	<b>40</b>	0	-	1
# Lowest Gini Diff.	<b>18</b>	10	3	5	7
# Lowest Gini Diff. (zero-mod)	<b>19</b>	10	5	-	9

**Table 12:** Results from fitting LCs from Africa to five Parametric Forms (settings with Weibull-implied uni- and zeromodality)

Parametric LC	Pareto	Rohde	Chotikapanich	Lognormal	Weibull
UNIMODAL ASIA (242 out of 284 LCs, mean reported Gini 0.3628))					
MSE	0.001005	0.000225	0.000583	<b>0.000109</b>	0.000533
(Standard Dev.)	(0.000611)	(0.000176)	(0.000463)	(0.000151)	(0.000399)
MSE/Lowest MSE	9.2202	2.0642	5.3486	1.0000	4.8899
Gini Difference	0.013105	0.008290	0.007480	<b>0.006572</b>	0.008477
(Standard Dev.)	(0.008409)	(0.007327)	(0.007190)	(0.008260)	(0.008866)
Gini Diff./Lowest Gini Diff.	1.9941	1.2614	1.1382	1.0000	1.2899
# Lowest MSE	18	4	4	<b>202</b>	14
# Lowest MSE (uni-mod)	-	-	-	<b>225</b>	17
# Lowest Gini Diff.	36	28	25	<b>100</b>	53
# Lowest Gini Diff. (uni-mod)	-	-	-	<b>189</b>	53
ZEROMODAL ASIA (42 out of 284 LCs, mean reported Gini 0.5208))					
MSE	0.001499	0.000328	0.001395	<b>0.000174</b>	0.000832
(Standard Dev.)	(0.000915)	(0.000349)	(0.000793)	(0.000309)	(0.000624)
MSE/Lowest MSE	8.6149	3.009	12.7982	1.0000	7.6330
Gini Difference	0.015077	<b>0.013929</b>	0.015378	0.015582	0.020701
(Standard Dev.)	(0.012817)	(0.012605)	(0.013749)	(0.015226)	(0.016278)
Gini Diff./Lowest Gini Diff.	1.0824	1.0000	1.1040	1.1187	1.4862
# Lowest MSE	4	0	0	<b>37</b>	1
# Lowest MSE (zero-mod)	4	<b>37</b>	0	-	1
# Lowest Gini Diff.	<b>17</b>	6	4	9	6
# Lowest Gini Diff. (zero-mod)	<b>17</b>	6	11	-	8

**Table 13:** Results from fitting LCs from Asia to five Parametric Forms (settings with Weibull-implied uni- and zeromodality)

Parametric LC	Pareto	Rohde	Chotikapanich	Lognormal	Weibull
UNIMODAL THE AMERICAS (213 out of 549 LCs, mean reported Gini 0.4313))					
MSE	0.001384	0.000228	0.000748	<b>0.000098</b>	0.000554
(Standard Dev.)	(0.000487)	(0.000350)	(0.000694)	(0.000327)	(0.000616)
MSE/Lowest MSE	14.1224	2.3265	7.6327	1.0000	5.6531
Gini Difference	0.014899	0.009238	0.007366	<b>0.006553</b>	0.009884
(Standard Dev.)	(0.008793)	(0.007342)	(0.007941)	(0.008887)	(0.009485)
Gini Diff./Lowest Gini Diff.	2.2736	1.4097	1.1241	1.0000	1.5083
# Lowest MSE	8	0	1	<b>195</b>	9
# Lowest MSE (uni-mod)	-	-	-	<b>203</b>	10
# Lowest Gini Diff.	40	14	26	<b>94</b>	39
# Lowest Gini Diff. (uni-mod)	-	-	-	<b>174</b>	39
ZEROMODAL THE AMERICAS (336 out of 549 LCs, mean reported Gini 0.5501))					
MSE	0.001463	0.000245	0.001459	<b>0.000102</b>	0.000768
(Standard Dev.)	(0.000513)	(0.000193)	(0.000616)	(0.000189)	(0.000441)
MSE/Lowest MSE	14.3431	2.4020	14.3039	1.0000	7.5294
Gini Difference	0.015441	0.010322	0.007105	<b>0.006654</b>	0.011989
(Standard Dev.)	(0.007768)	(0.007146)	(0.008286)	(0.008733)	(0.009530)
Gini Diff./Lowest Gini Diff.	2.3206	1.5512	1.0678	1.0000	1.8018
# Lowest MSE	5	1	0	<b>328</b>	2
# Lowest MSE (zero-mod)	10	<b>317</b>	0	-	9
# Lowest Gini Diff.	38	39	79	<b>139</b>	41
# Lowest Gini Diff. (zero-mod)	38	39	<b>199</b>	-	60

**Table 14:** Results from fitting LCs from the Americas to five Parametric Forms (settings with Weibull-implied uni- and zeromodality)