

International Income Inequality: Measuring PPP bias by estimating Engel curves for food.

Author: Ingvild Almås

Abstract

Price-adjusted data on national incomes applied in cross-country comparisons are measured with bias. By studying micro data, this paper finds that the bias is systematic: the poorer a country is, the more its income tends to be overestimated. Consequently, international income inequalities are underestimated.

The bias in the macro price variables (PPPs), is caused by factors analogous to those creating bias in consumer price index numbers (CPIs). Exploiting this fact, the PPP bias is measured by estimating Engel curves for food, a method already established to measure CPI bias.