

The Kuznets Hypothesis: A sensitivity analysis using multiple regression specifications  
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Abstract

This paper uses cross sectional estimation to investigate the relationship between economic development and income inequality. The results support the Kuznets hypothesis which suggests that as a country goes through the course of development, inequality will initially rise, then fall, creating an inverse-U shaped relationship. The robustness of the result is tested by changing the functional form of GDP per capita and by introducing different control variables. The paper continues by examining the relative 'turning points' of each specification and focuses on their sensitivity to the functional form of GDP per capita. Finally, an instrumental variable is used in order to cope with a potential endogeneity issue. The results of which also support the Kuznets hypothesis.