

**Economics of Poverty and Discrimination**  
**First Midterm Exam**  
**Fall 2006**

Answer all questions. The allocation of points should serve as a guide to the amount of time you should devote to each question. Answer the questions fully but do not pad your answers. (Use the back of the sheet if necessary.) Unless the question asks explicitly about some other definition, references to *poverty* refer to the official poverty definition if the answer would differ using another definition.

1. **(2 points)** Patients in teaching hospitals are more likely to die than are patients in other hospitals. Give two different explanations with opposite directions of causality.

2. **(3 points)** Explain briefly whether each of the following people is poor or is not poor under the official definition of poverty?

a. An elderly widow who lives in a valuable house. She has \$8000 per year in income, most of which is used to pay the taxes and minimal utility bills on her house. She often eats in soup kitchens and spends only \$2,000 per year on food.

b. That same woman except that she spends more than 1/3 of her income on food.

c. That same woman except that she receives \$2,400 per year in food stamps and now spends \$3,000 per year on food (including the \$2,400 in food stamps)

3. **(5 points)** Describe the principal criticisms of the official definition of poverty.

**NAME:** \_\_\_\_\_

4. **(4 points)** Why was the poverty rate two percentage points higher in 1994 than in 1971 even though median earnings of men were almost identical in the two years?

5. **(6 points)** Explain your answers. Use the back of this sheet if necessary.

a. A family receives \$100 per month in food stamps and spends \$100 per month on food that can be purchased with food stamps. There is an active market in which food stamps can be sold (without fear of legal or social sanctions) at 80 cents per dollar of food stamps. What can we say about the value of the food stamps to the family?

b. In 2006 a single-parent with two children with earned income between \$11,000 and \$15,100 is eligible for the maximum earned-income tax credit of \$4,400. All two children families are eligible for some EITC if their earned income is less than \$36,348 and investment income is less than \$2,700. Suppose that a single mother with two children would earn \$30,000 and have no investment income in the absence of EITC. Why might the earned-income tax credit reduce the labor supply of this individual?

c. Most poverty spells are short but most of the poor are in long poverty spells. Explain.