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 U.S. poverty definition and to the official U.S. poverty rate if the answer would differ using another definition.

1. (3 points) You read a report that shows that, compared to students who do not eat breakfast in school, students who eat a subsidized school breakfast get lower grades and test scores. Discuss the possible interpretations of these data.

2. (2 points) A homeless schizophrenic man has $500,000 in a bank account but lives off the money he gets from returning deposit bottles that he finds. What information do you require to know whether he is poor using the official definition of poverty?

3. (3 points) A family receives $250 per month in food stamps but in the absence of food stamps only spent $200 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? Explain your answer.
4. **(2 points)** Why might switching from traditional welfare to an earned-income tax credit increase the poverty rate even if government spends as much on the credit as it did on the traditional welfare program?

5. **(2 points)** Why might you measure poverty by consumption rather than by income even if you believe that poverty should be defined in terms of “financial resources” rather than consumption?

6. **(3 points)** Most poverty spells are short but most of the poor are in long poverty spells. How can we reconcile these two facts?

7. **(5 points)** Describe and explain the broad trends in the U.S. poverty rate since 1960.