

A: Consider a household whose income depends on its work capacity and where work capacity depends on health that in turn depends on the income. (80 percent)

1. How would you explain each of the relationships?
2. What do we mean by a poverty trap?
3. Show that the setting above may lead to a poverty trap.
4. How would a year with drought affect the economic situation of the household?
5. How would free health care affect the economic situation of the household?
6. How would access to privately paid health care affect the economic situation of the household?
7. How would access to credit affect the economic situation of the household?
8. How is the situation changed if the health of the household is largely determined by the health in the local community?

B: Explain what is meant by sustainable debt and show by a couple of examples how a sustainable level of debt relative to income can be calculated. (20 percent)