

Guide for marking. ECON1910 Postponed Exam Spring 2025

The problem set goes to the core of topics covered in econ1910. In order to get a good grade the candidate should build on arguments that was actually thought in class, with a sufficient formal rigor, rather than generally common sense arguments.

1. Consider a farmer household whose income depends on its work capacity and where its work capacity depends on its income. Show that two such relationships can lead to a poverty trap.

The response would be graphical with two curves, one positive relationship from work capacity to income and another positive relationship from income to work capacity (e.g. via health). If these curves are non-linear and cross more than once one of the crossing could qualify as a poverty trap.

2. How could irrigation affect the economic situation of the household?

Irrigation would typically lift income for any work capacity. This would increase income. In the case of poverty trap equilibrium this equilibrium could vanish.

3. How could free health care affect the economic situation of the household?

Free health would typically lift work capacity for any income. This would increase income. In the case of poverty trap equilibrium this equilibrium could vanish.

4. How could access to credit affect the economic situation of the household?

Credit could make it possible for a household to pay for health or irrigation and could (at least in principle) lead the household out of poverty. This is of course optimistic and a good essay would also respond could also include a critical discussion of this.

5. How could a farmer community arrange a system for micro credit finance?

This could take the form of a rosca or similar. The candidate should discuss this.

6. Should foreign assistance be replaced by micro credit finance?

The answer could cover several elements. E.g. Foreign assistance brings in outside funds to the farmer community and brings in foreign exchange to the country. Both make foreign assistance attractive. Micro credit (based on local mobilization) relies on the community taking action and could foster institution building and ownership.