

### Assignment 6

1. Suppose an economy consists of 10 persons with ranked income as [1, 2, 3, 4, 5, 6, 7, 8, 9, 10] and the poverty line is \$3.5
  - i. Compute HCR, PGR, IGR, PGI, and  $FGT_2$
  - ii. Suppose income of the economy grows by 3% while ratio of income of the poor to total income stays the same. What happens to absolute income of the poor?
  - iii. Suppose there is a \$1 income transfer by the UN to every poor person in this economy. How is the new poverty situation compared to the initial case? (*Hint: Which poverty axiom does this follow?*)
2. Out of several “Life Shocks” that could cause the poverty cycle, please briefly describe how one specific circumstance can lead to 7 others, and eventually put that person into the poverty cycle. (Please limit your answer within half a page.)
3. Suppose you are the well-loved Prime Minister of Sarkan, a country in South East Asia that faces a moderate poverty problem. What are the possible policy measures you can take to reduce this poverty problem both in the short-and long-run. (Please limit your answer within 1 page.)