

- Health causes income

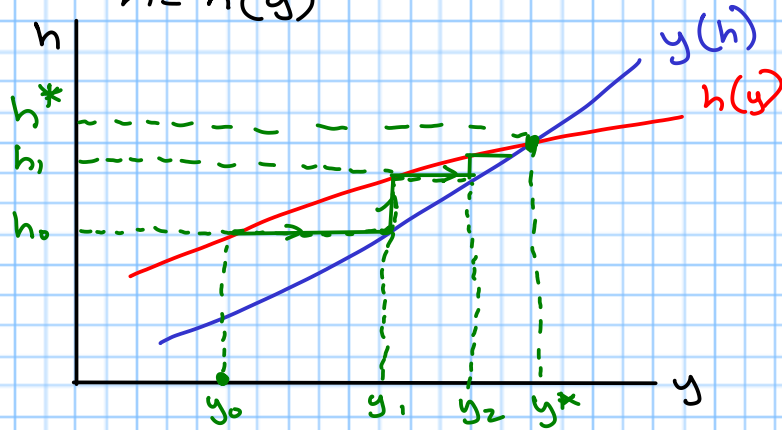
$$y = y(h)$$

$\uparrow$  income       $\uparrow$  health

income is a function of health

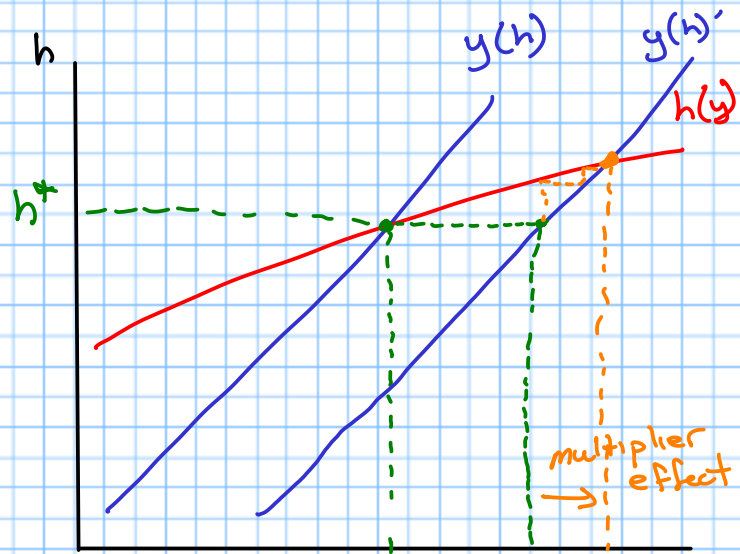
- Income causes health:

$$h = h(y)$$



$y_0$  is initial level of income

- Suppose there is an exogenous change to income  
 → something that causes income to change, but doesn't affect health  
 → productivity increase (technology), business cycle, government expenditures, etc



$y^* \rightarrow y'$   
 $y^* \quad y$

change in  
 income  
 due to  
 exogenous change