

RISK AND INSURANCE IN VILLAGE INDIA

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The full insurance model is tested using data from three poor, high risk villages in the semi-arid tropics of southern India. The model presented here incorporates a number of salient features of the actual village economies. Although the model is rejected statistically, it does provide a surprisingly good benchmark. Household consumptions comove with village average consumption. More clearly, household consumptions are not much influenced by contemporaneous own income, sickness, unemployment, or other idiosyncratic shocks, controlling for village consumption (i.e. for village level risk). There is evidence that the landless are less well insured than their village neighbors in one of the three villages.

KEYWORDS: Risk, insurance, consumption smoothing, village economies.