

Propagation and Insurance in Village Networks *

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Abstract

In village economies, it is well known that networks can smooth shocks. Less acknowledged is that local production networks can *propagate* shocks. In Thailand, a significant idiosyncratic shock to one household propagates via supply-chain and labor networks. Imperfectly insured households adjust production decisions—cutting input spending and reducing hiring—affecting households with whom they trade inputs and labor. Those linked to shocked households experience reduced local transactions, earnings, and consumption. These declines persist over several years. The total magnitude of indirect effects may be larger than direct effects. Social gains from expanding safety nets may be substantially higher than private gains.

Keywords: Entrepreneurship, Risk sharing, Propagation, Production networks

JEL Classification: D13, D22, I15, O1, Q12

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