Comment on Cole et al. (2012)
NBER Conference
Insurance Markets and Catastrophe Risk

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Context

- Large literature in development risk coping by households.
- Bulk of literature focuses on how households smooth consumption (*ex-post*).
- Paper focuses on income smoothing (*ex-ante*).
- Common prediction from many models: insurance leads agents to shift towards riskier but higher yielding production activities.
- Paper tests this prediction experimentally by providing farmers in Andhra Pradesh with rainfall insurance.
- (First?) study that documents experimentally a shift to riskier, higher return agricultural production. Farmers devote more of their land to growing riskier crops and spend more money on these crops
- Can these results help explain "why is index insurance take-up so low?"

Welfare

- measure welfare gain with consumption data and compare gains to (unsubsidized) cost of insurance.
- More generally, authors implement both counterfactual policies from Rosenzweig and Wolpin (1993). RW find that welfare gains from weather insurance are small relative to unsubsidized cost so most farmers don't purchase it.
- RW attribute this to ex-post smoothing mechanisms working well enough to obviate need for insurance (unless it is very cheap).
- Compare welfare gains across the wealth distribution. Are the gains higher for the wealthy than the poor?

Variation across Wealth Distribution

- Paper shows that wealthier farmers are more likely to alter investment decisions. Interesting finding and worth exploring further.
- Older literature argues that wealthier farmers are indeed better self-insured while poorer farmers would benefit from insurance but are cash and credit constrained.
- Useful to compute profits and link between rainfall and profits across the wealth distribution.

Other Margins

- Payout varied considerably across rainfall stations (5X)
- Group villages according to Phase-1 rainfall to examine relationship between deviations from normal rain and farmer practices (particularly in Phases 2 and 3).
- Did farmers alter diversification strategies (e.g. change in migration, savings, storage, non-farm enterprises, NREGA usage, remittances)