

# CIFREM SEMINARS

## RESPONSES OF RURAL HOUSEHOLDS IN INDONESIA TO SHOCKS

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*Via Inama, 5*

The analysis of the uncertainty affecting households, and their responses to this uncertainty, is a key issue in developing countries, where poor people are exposed to risks that affect household living conditions (Morduch, 1994; Dercon, 2005). Shocks, defined as large adverse movements in incomes or consumption requirements, can have a major impact on the possibility of the household escaping poverty or may induce a non-poor household to enter poverty. Poor people develop mechanisms to deal with these hardships. These are based around both formal insurance strategies and informal insurance arrangements between individuals and communities. The types of responses used by the household to overcome or insure against shocks are not irrelevant. They may have long term consequences on household well being, destroying or reducing the physical, financial, human or social capital of the household. Risk-coping (insurance) strategies divert resources away from directly productive activities and may prevent households from exploiting comparative advantage. Hence, it is important to understand how households cope with shocks, and to evaluate which are the most costly responses. Using the data from the Indonesia Family Life Survey, we explore the responses of rural households to different shocks. These coping mechanisms may depend on the type of the shocks and on households characteristics. Measures may be different for poor and rich households, as different shocks (common or idiosyncratic, demographic or economics) may be associated with different responses. The structure of the interviews from which we take our data allows the possibility for respondents to choose multiple responses (i.e. responses are non-exclusive). We account for this by modelling minimization of the cost of adjusting to shocks. Multiple choices are treated either as independent (using the binomial logit or probit models), or as dependent (using a generalization of the standard multinomial logit model).

Referente

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