

# Income Shock, Heterogeneity, and Local Policy Responses: Evidence from Indonesia

Armand Arief Sim \*

September 16, 2019

## Abstract

This paper investigates the role of government in mitigating the risk of exposure to trade policies through local policy responses in Indonesian villages. I study the consequences of sudden and major rice import restriction that imposes sharp increase and considerable variation in domestic rice price across provinces. I combine variation in rice price with geographic variation in rice suitability as an indirect measure of income shock at village level. I find some evidence that rice price hike increased aggregate income of villages more suited for rice production. Two important results emerge. I find that adversely affected villages 1) that had not already had a health facility were more likely to receive one from district government, 2) received higher number of development projects, particularly capital assistance project. The results were mostly driven by more unequal and less ethnically diverse villages, while the severity of the income shocks did not seem to matter. Finally, I find that public health facilities mitigated negative income effects on infant mortality rate.

**JEL Classification:** H4,H7,O1,O2,R1.

---

\*Dyson School of Applied Economics and Management, Cornell University: aas354@cornell.edu. I am very grateful to Nancy Chau, Ravi Kanbur, Hyuncheol Bryant Kim, and Doug Miller for their guidance throughout this project. I also thank Esteban Mendez Chacon and Brian Dillon for helpful conversations, Chris Barrett, John Hoddinott, Heidi Kaila, Hyuk Son, and seminar participants at Cornell University for helpful comments. Many thanks to Traviss Cassidy for sharing village crosswalk codes, Ryan Edwards, Joseph Marshan, Ruth Nikijuluw, Mayang Rizky for sharing data, and Keith Jenkins for help with GIS. I also thank Indonesia Endowment Fund for Education (LPDP-RI) for their financial support. All errors are my own.