

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

Armand Arief Sim *

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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 evidence that rice price hike increased aggregate income in villages more suited for rice production. 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.

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