

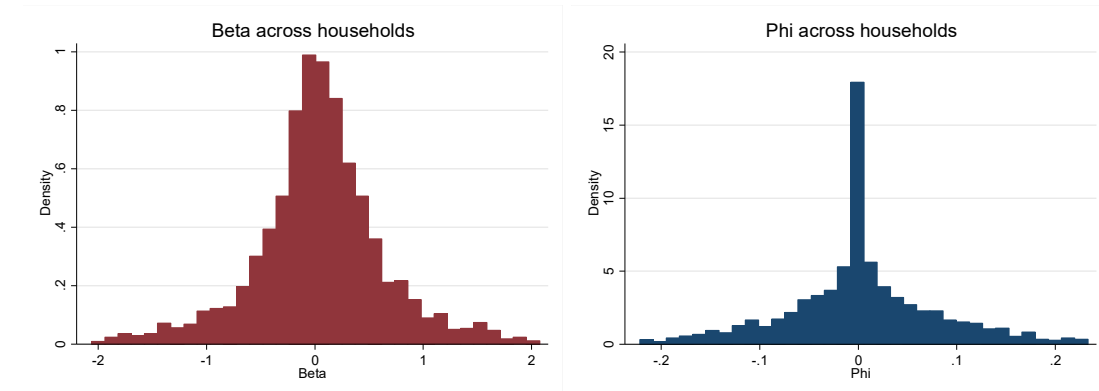
Development Economics: Homework 3

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main.do delivers the solutions to Question 1-3.

Question 1



Mean & median of β : .0415669, .0346592; mean & median of φ : .0027452, 0.

Discussion: Full insurance is the case that β is close to 0 and φ is significantly greater than 0. However, in our case, neither is β close to 0 (compared to φ , β seems to be large in terms of both mean and median), nor is φ significantly greater than 0 (compared to β , φ seems to be small in terms of both mean and median). Therefore, we can hardly see the full insurance mechanism.

Question 2

	Quintile	Mean	Median
β	1st	-1.8111407	.04083949
	2nd	-.42231693	.02415032
	3rd	.44567727	.05405407
	4th	-4.5550266	.04884257
	5th	-.05975596	.00337103
log income	1st	5.0331074	5.4328428
	2nd	6.9542712	6.9829973
	3rd	7.5460119	7.5585205
	4th	7.9332922	7.9268561
	5th	8.7275916	8.5946183

We do not see a clear evolution pattern of β across the income quintiles. It actually changes a lot. If we did a cross-region (instead of cross-country) analysis, the results would be much more explainable.

The distribution of log income across β seems to indicate that more risk sharing is correlated with lower income, which is different from what is told by the first panel but reasonable, because higher income households rely more on income to survive.

Question 3

The estimated β is .047753 with a standard error .0037478 and the estimated φ is .0039088 with a standard error .0049247. Still similar to question 1, I cannot find the full risk sharing pattern.

Change line 12 of the code will deliver the urban / rural counterpart solutions to the above three questions, but I am running out of time now.