Do Savings Improve Consumption Smoothing in the Presence of Limited Commitment and Hidden Income?

Data Collection Summary

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Country: India

Summary: This project explores the interaction between informal insurance and self-insurance through savings and studies how hidden savings and hidden income affect insurance relationships. It provides an opportunity to explore the design of relevant and potentially welfare-improving financial products which pair together savings access and informational features. Specifically, the project will investigate whether offering savings products that are publicly observable may aid individuals to re-establish better informal insurance relationships.

The lab experiment takes place in the field in India where the population of interest, rural villagers with limited access to financial institutions, participates in limited commitment games. This design allows for unique insight into these questions by isolating the insurance behavior through controlling for the information sets, the income process, and the contracting options faced. Moreover, the detailed data on the social linkages between the households in the villages where the experiment takes place shows how the results interact with the effect of individuals’ social ties.

Survey Time Frame and Rounds:
- July-August 2010: Experiments run in villages

Modules:
- Lab experiment

Sample: Individuals in villages in rural Karnataka, India.

Survey size: 3,080 individuals (77 villages in Karnataka and 40 volunteer participants per village).

Intervention: The design consists of five games:
1. Observed income and savings
2. Hidden income, observed savings
3. Hidden income, hidden savings
4. Hidden income, observed savings, limited commitment
5. Certifiable income, observed savings

Individuals will play each game with a partner. In each period, individuals will receive uncertain, i.e. risky, income and will be able to make decisions about how much to consume, save for next period, and transfer to insure their partner.