Fitzsimons, Emla, Malde, Bansi and Vera-Hernandez, Marcos (2018) *Group Size and the Efficiency of Informal Risk Sharing*. Economic Journal, 128 (612). F575-F608. ISSN 0013-0133.
GROUP SIZE AND THE EFFICIENCY OF INFORMAL RISK SHARING*

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This paper studies the relationship between group size and informal risk sharing. It shows that under limited commitment with coalitional deviations, this relationship is theoretically ambiguous. It investigates this question empirically using data on sibship size of household heads and spouses from rural Malawi, exploiting a social norm among the main sample ethnic group to define the potential risk-sharing group. We uncover evidence of worse risk sharing of crop losses in larger potential risk-sharing groups, and rule out alternative explanations for the findings. A simple calibration exercise indicates that our empirical findings are consistent with the theory.

Risk is a salient feature of daily life in rural areas of developing countries. These contexts are also characterised by market imperfections such as weak enforcement (also known as limited commitment), costly monitoring, poor infrastructure and weak government capacity; which lead to missing or incomplete insurance and credit markets, and an absence of government social safety nets to help mitigate the effects of risk. Instead, households rely on a variety of informal mechanisms, such as (informal) transfers and loans from relatives and friends, to deal with the consequences of risk (Besley, 1995). Such mechanisms are usually based on social ties and groups, such as family or friendship, which are typically more effective in overcoming the aforementioned market imperfections (Rosenzweig, 1988b; Rosenzweig and Stark, 1989; Fafchamps and Lund, 2003; Fafchamps and Gabert, 2007; Angelucci et al., 2018). A sizeable literature finds that these informal mechanisms are remarkably effective in helping households share risk, though they are

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We thank the Mai Mwana team, especially Tambizo Phiri, Andrew Mganga, Nicholas Mbwana, Christopher Kamphinga, Sonia Lewycka and Mikey Rosato for their advice, useful discussions and assistance with data collection. We are grateful also to Julia Behrman, Senthuran Bhuvanendra, Lena Lepuschuetz, Carys Roberts and Simon Robertson for excellent research assistance. We thank the Editor, Kjell Salvanes and two anonymous referees for useful comments and suggestions. We thank Orazio Attanasio, Richard Blundell, Antonio Cabrales, Ethan Ligon, Imran Rasul, Debraj Ray, Ian Preston, Karen Macours, Jere Behrman, Susan Watkins, Pauline Peters and participants at the IFS work-in-progress seminar, IFS-UCL PhD conference, EDePo Conference and Kent Development Workshop for helpful comments and suggestions. We thank Garance Genicot for kindly sharing code for the model of risk sharing with coalition-proof arrangements. Financial support from the ESRC-NCRM Node ‘Programme Evaluation for Policy Analysis’ Grant ES/I03685X/1 is gratefully acknowledged. Malde also gratefully acknowledges funding from ESRC Future Research Leaders Grant ES/K00129X/1.

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1 A sizeable literature considers the implications of these imperfections on risk sharing: Kocherlakota (1996), Foster and Rosenzweig (2001), Ligon et al. (2003) and Dubois et al. (2008) consider the implications for the imperfect enforceability of contracts, while Ligon (1998) and Attanasio and Pavoni (2011) study issues related to moral hazard, and Kinnan (2014) highlights the importance of hidden income.

2 For example, relatives have several opportunities to interact with one another, thus reducing the costs of monitoring each other’s actions. Moreover, they could use strategies such as shame or even ostracism (both of which are typically not feasible for formal insurance and credit providers to use) to punish reneges in informal arrangements.
unable to perfectly protect household well-being. Recent work however, mainly theoretical, suggests that certain features of these groups are likely to influence how effective they are in providing risk sharing (Bloch et al., 2008; Jackson et al., 2012).

This paper aims to study how one important characteristic of informal risk-sharing groups – their size (or number of households in the group) – affects the amount of risk sharing achieved. We first establish theoretical predictions, and then test these predictions empirically in a setting characterized by almost no formal enforcement mechanisms. Theoretically, in an environment where informal arrangements need to be self-sustaining, two forces are at play in influencing the relationship between group size and risk sharing: on the one hand, when households are sufficiently patient and interactions are repeated, larger groups allow for more diversification of shocks, leading to higher gains from sharing risk. On the other hand, as shown in the seminal paper by Genicot and Ray (2003), when arrangements need to be robust to deviations by sub-groups, larger groups can be destabilised by smaller sub-groups that are large enough to provide significant levels of risk sharing, meaning that stable groups that can sustain risk sharing are bounded from the top. This suggests that the relationship between group size and risk sharing is unclear. We extend the set-up of Genicot and Ray (2003) and use simulations to show that the relationship between group size and risk sharing is theoretically ambiguous. The exact nature of the relationship between group size and risk sharing is therefore an empirical question.

Conceptually, it is important to distinguish between the actual and potential risk-sharing group. Empirically, the former poses at least two challenges: first, it is difficult to measure accurately, and second, it is endogenous since individuals sort into groups on the basis of unobserved characteristics and shocks that are also correlated with risk sharing. To partially overcome this, much prior literature has taken the risk-sharing group to be a village (Townsend, 1994, 1995). Though readily observable in many socio-economic data sets, this definition is likely to be too broad, especially since villages can have 500 or more households. We instead focus on the sibship of the household head and spouse, a group that is predetermined. To reflect the fact that not all members of this group will actually share risk amongst each other, in what follows, we refer to it as ‘potential group size’.

In the context we study – Mchinji, Malawi – the instrumental role of the family in risk sharing has been documented in the anthropology and sociology literatures (Phiri, 1983; Mtika and Doctor, 2002; Munthali, 2002; Peters et al., 2008). This is also supported by our data, where the vast majority (80%) of transfers received by a household are from family members. Thus, the number of siblings of the head and the spouse are a relevant proxy for ‘potential group size’ in this setting. Moreover, historical and well-documented social norms in Mchinji confer an important role on the wife’s brothers (relative to her sisters) in ensuring her household’s well-being. Whilst an individual’s sibship size is predetermined, it may still be correlated with unobserved factors that are related with risk sharing. The norms not only allow us to obtain a more fine grained measure of potential group size, but also provide us with an

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3 For example, self-reports are subject to strategic behaviour as shown by Comola and Fafchamps (2017).
4 A large literature has documented the importance of the extended family for risk sharing in developing countries (Rosenzweig, 1988a,b; Stark and Lucas, 1988; Rosenzweig and Stark, 1989; Foster and Rosenzweig, 2001; Fafchamps and Lund, 2003; Fafchamps and Gubert, 2007; Witoelar, 2013; Angelucci et al., 2018).
important dimension of heterogeneity that helps allay concerns around omitted variable bias. In particular, we can use the wife’s sisters, distinct from brothers, to construct placebo tests to help build confidence that our findings are not driven by omitted variables associated with larger families.

To investigate the empirical relationship between group size and informal risk sharing, we utilise a rich longitudinal dataset which includes information on household consumption, crop loss (incidence and intensity) and the number of living siblings of the head and spouse (referred to interchangeably as husband and wife, respectively). We consider how well protected a household’s consumption is to idiosyncratic crop losses – an important source of risk in our predominantly agricultural setting – given the size of its extended family. Given the social norms previously discussed, we define groups separately according to relationship to the husband or wife (that is, we consider groups such as brothers of husband, brothers of wife, etc.). The correlation between changes in log household consumption and the incidence (and intensity) of household crop loss provides a measure of risk sharing (Mace, 1991; Townsend, 1994; Attanasio and Szekely, 2004). We find that households in which the wife has many brothers achieve worse risk sharing in response to crop losses compared to households in which the wife has fewer brothers. A similar pattern, though slightly weaker, is found for households where the husband has many sisters.

A concern is that these findings could be due to the fact that households where the wife has many brothers (or husbands have many sisters) are poorer and, therefore, more vulnerable to shocks. However, the fact that we fail to uncover a similar relationship among households where the wife (husband) has many sisters (brothers), alleviates this concern. Of course, such a comparison would form a valid placebo test only if households where the wife (husband) has many sisters (brothers) are similar to those where the wife (husband) has many brothers (sisters). We confirm this is the case, by testing directly for differences in the age, education and ethnicity of these household types. Additional robustness checks indicate that the findings are unlikely to be explained by households with larger numbers of siblings being more vulnerable to crop losses; or by increased competition for production resources, specifically land, among families with many male siblings.

Lastly, we confirm that our empirical findings are compatible with Genicot and Ray (2003). To do so, we calibrate the theoretical model using, where available, values from the data. The calibrated model yields similar patterns between risk sharing and group size as those found in the data, indicating that the threat of coalitional deviations can explain our findings.

The article contributes to a number of strands of literature. It relates to a small literature investigating the relationship between risk sharing and group size. A number of studies show that the optimal risk sharing groups are likely to be small in the presence of coalitional deviations (Genicot and Ray, 2003; Dubois, 2006; Chaudhuri et al., 2010) and transaction costs (Murgai et al., 2002). However, when households can choose the risks they face, and when they have heterogeneous risk preferences, larger groups may become stable, as shown theoretically by Wang (2015).

It also relates to the literature investigating risk sharing in the presence of coalitional deviations. Recent contributions extend theoretically Genicot and Ray (2003) to characterise the optimal risk sharing contract when current transfers depend on past

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transfers and shocks (Bold, 2009); and to allow for savings and the availability of formal and informal risk-sharing institutions (Bold and Dercon, 2014). Bold and Dercon (2014) also implement an empirical test of the model, using data from funeral insurance groups in Ethiopia. However, they do not consider the relationship between risk sharing and group size. Bold and Broer (2016) show that empirically observed degrees of village-based risk sharing, and asymmetry of consumption responses to positive and negative shocks, can be better explained by a model of limited commitment with coalitional deviations than in a limited commitment model with grim trigger strategies. Their model generates endogenous risk-sharing groups that are small in size (one to five in practice), which provide some, but not complete, insurance; and also generate, in line with Indian data, symmetric consumption responses to positive and negative shocks.

Finally, the article contributes to the literature investigating the role of extended families in risk sharing in developing countries. Recent work has documented that market imperfections influence transactions and informal risk-sharing arrangements within the family. For example, Foster and Rosenzweig (2001) document that limited commitment, tempered by altruism, is at play in rural India, while DeWeerdt et al. (2014) show that asymmetry of information among spatially dispersed extended family networks affects inter-household transfer decisions in rural Tanzania. Baland et al. (2016) document that transfers among siblings in Cameroon follow a system of reciprocal credit, where older siblings support the education of younger siblings, with the expectation that the younger siblings will reciprocate later. Our analysis complements this literature by considering how the size of extended family networks affects informal risk sharing.

The article is structured as follows. Section 1 lays out the conceptual framework, and shows that the relationship between the amount of risk shared and group size is theoretically ambiguous when coalitions can deviate. Section 2 provides details on the data, and the social context, focusing particularly on norms governing extended family relationships in rural Malawi. Section 3 discusses the empirical specification; while Section 4 contains our main results and robustness checks. Section 5 outlines findings of the model calibration. Section 6 concludes.

1. Conceptual Framework

We consider optimal risk sharing in environments subject to imperfect enforceability of contracts. This assumption matches well our empirical setting – rural Malawi – where formal enforcement mechanisms are rarely available. We draw on the set-up in Genicot and Ray (2003), GR hereon, and add to their analysis by considering explicitly (using numerical simulations) the relationship between the extent of risk sharing and potential group size.

Households are part of a potential risk-sharing group (in our case, brothers/sisters of the head and spouse) of size $n$. The size of the potential risk-sharing group is exogenously set. Households face a risky endowment, that takes on two values: $h$ or $l$, 

This literature also finds that social pressure to make transfers among kin leads to less optimal investment decisions, especially for women (Jakiela and Ozier, 2016).

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The probability of drawing an endowment $h$ in any period is $\pi$; $0 \leq \pi \leq 1$. Households are \textit{ex ante} identical, risk averse and gain utility from consumption. Household utility is increasing, concave and twice-continuously differentiable. There is no storage technology, and neither formal credit nor insurance is available.

To cope with the consequences of risk, households can make and receive transfers following a transfer rule that depends on the number of households in the group that receive the high endowment shock: when a household receives $h$, and $k - 1$ other households also receive $h$, each household receiving $h$ sends a transfer $t_k$ to a common pool, which is then shared equally among those receiving $l$. Consumption for households receiving $h$ is thus $h - t_k$, while that for those receiving $l$ is $l + kt_k/(n - k)$.\(^6\)

Households observe the endowments, consumption and transfers made and received by all other households in the group. However, this setting is subject to the imperfect enforceability of contracts. Thus, the transfer arrangement needs to be self-sustaining. In particular, it needs to be such that no individual or sub-group wants to deviate from the arrangement i.e. it should be coalition-proof. The specific definition of coalition-proofness is as in Bernheim \textit{et al.} (1987), which places a further restriction that sub-groups that deviate should themselves be robust to further deviations. Thus, arrangements need to be self-sustaining to deviations that are themselves credible.

Given the transfer rule, and the coalition-proofness condition, and focusing on stationary arrangements, the optimal risk sharing arrangement (i.e. transfer in each state) can be recovered from the following optimisation problem (expressed in per-period terms):

\[
\begin{align*}
\max_{t_k} v(t, n) &= p^n u(h) + (1 - p)^n u(l) + \sum_{k=1}^{n-1} p(k, n) \left[ \frac{k}{n} u(h - t_k) + \frac{n - k}{n} u \left( l + \frac{kt_k}{n - k} \right) \right], \\
\text{subject to:} & \quad (1 - \delta) u(h - t_k) + \delta v(t, n) \geq (1 - \delta) u(h) + \delta v^*(s) \quad \forall s \leq k,
\end{align*}
\]

where $\delta$ is the discount factor, and $v^*(s)$ is the per-period expected utility a household could get by deviating to a stable sub-group of size $s$, and sharing risk in this sub-group in all subsequent periods. The incentive compatibility constraints in (2) imply that the transfer arrangement should be such that the per-period discounted utility for households that achieve a good shock in the current period and make a transfer $t_k$ to the common pool, and expect to achieve future expected utility of $v(t, n)$ is greater than the utility it can achieve from deviating in a sub-group $s$ where it consumes $h$ this period and shares risk with the sub-group $s$ in the future thus attaining an expected future utility of $v^*(s)$.\(^7\)

\(^6\) Note that the transfer rule makes use of the fact that the group-level aggregate budget constraint for each period must be satisfied.

\(^7\) This formulation considers deviations by households that receive a good shock only. Genicot and Ray (2003) argue that it is necessary and sufficient to check only the enforcement constraints for stable subsets of households receiving a good shock when considering symmetric stationary strategies. Those receiving a bad shock (who are recipients of transfers in this state) could be induced to join a sub-group of households receiving a good shock only under very special circumstances. In particular, there needs to be some coordination failure (or belief of this) among households receiving a bad shock for some household in this group to be tempted to join the deviating group of households with good shocks.
When no incentive compatibility constraint binds, the first-best allocation, which equalises consumption for all households within the group for each state of the world, is achieved. By contrast, in autarky, when no risk sharing occurs, households consume their own endowment in each period, achieving a per-period expected utility of $p u(h) + (1 - p) u(l)$.

Based on this set-up, GR show that a stable risk-sharing arrangement may fail to exist for many group sizes, even for high values of the discount factor. Moreover, they show that the size of stable risk-sharing groups is bounded from above: essentially, large groups are not stable in the presence of coalitional deviations, since households receiving a good shock can deviate to form sub-groups within which they can still benefit from group-based insurance in the future. Thus, in larger groups, the outside option may potentially be better than in smaller groups (depending on the sizes of possible stable sub-coalitions). Thus, the transfer made by those receiving $h$ will be lower than in arrangements sustained by ostracising a deviator to autarky in the future. This is because those receiving $h$ need to be induced to remain in the group rather than deviate to a sub-group, which could provide higher utility than autarky. In some cases, no positive transfer exists, leading to the non-existence of a stable risk sharing arrangement.

Our contribution, relative to GR, is to show within the same set-up that the relationship between the amount of risk sharing and potential group size is ambiguous. The fact that a stable arrangement may not exist for many group sizes, complicates this exercise. In particular, it is not possible to study this analytically. We instead use numerical simulations to shed light on the relationship.

We need to take a stand on how risk is shared in potential groups of size $n$ where no stable risk-sharing arrangement exists. One possibility is that households remain in autarky. However, this is not very satisfactory, especially since within this set-up, households can deviate from an autarky punishment by cooperating with sub-groups of households. Thus, given that households are $ex$ $ante$ identical in this setting, a natural assumption is that in cases where no stable arrangement exists for a potential group of size $n$, the potential group randomly partitions into stable sub-groups in a manner so as to maximise the sum of expected utility:

$$\sum_{i=1}^{n} \sum_{s \in S} n_s \times s \times u_i(t, s),$$

where $S$ is the set of stable coalitions (or groups), and $i$ indexes households in the group. In other words, we assume that there exists a social planner who chooses a

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8 In models where the risk-sharing arrangement is sustained by ostracising individuals who deviate (i.e. deviating individuals revert to autarky in future periods), a stable arrangement may fail to exist when the discount factor is low. When arrangements need to be coalition proof, however, a stable arrangement may fail to exist even if the discount factor is sufficiently high.

9 When arrangements can be non-stationary, a larger group could be stable. This is because only a sub-set, rather than all, of potential deviators need to be compensated to remain in the risk sharing arrangement. Nonetheless, GR show that the size of the largest stable group will still be bounded from the top (though it could be larger than the largest stable group under stationary arrangements).

10 Moreover, as indicated by GR, the existence or not of a stable arrangement for groups of size greater than two is sensitive to parameter values.

11 This need not be the only way by which the group partitions, particularly when households are allowed to be heterogeneous. For example, partitions could emerge endogenously as in Ambrus et al. (2014), who allow for different transfers to be made between pairs of households embedded in a network.

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combination of stable sub-groups such that the sum of expected utility (as in (3)) is maximised, and then randomly sorts households into these sub-groups.\textsuperscript{12,13} We can then calculate the expected utility of a household in the unstable potential group of size $n$ as the weighted average of the expected utilities associated with the combination of stable sub-groups (the actual risk-sharing group) that maximises the potential group’s expected utility, with weights calculated as the probability of being randomly assigned to a particular sub-group. To be precise, the household’s weighted average expected utility is

$$\sum_{s \in S_s \text{stable}} \pi_s v_i(t, s),$$

where $\pi_s$ is the probability of being in the stable group $s$. This is the social planner’s objective function. The value of this function increases as fluctuations in a household’s consumption fall: a larger stable group will have a higher value of $v_i(t, s)$ since:

(i) the probability of states where all households receive the same shock falls with group size, and so there is more scope for risk sharing; and

(ii) households have concave utility.

1.1. Simulations

To simulate the model, we make some assumptions about the functional form of the utility function, and the parameter values. In the examples we show here, we use the same parameter values as in GR (Example 2).\textsuperscript{14} Utility is assumed to be of the constant relative risk aversion (CRRA) form:

$$u(c) = c^{(1-\rho)} - \frac{1}{(1-\rho)},$$

where $\rho$ is the coefficient of relative risk aversion. $n$ is assumed to be 10, $\rho$ is assumed to be 1.6, $\delta = 0.83$, $h = 3$ and $l = 2$ as in GR. Finally, the probability of receiving the high endowment is $p = 0.4$. With this set of parameter values, only sub-coalitions of size one, two and three are stable, as reported in GR and documented in Table 1.

Given this set of stable sub-groups, we evaluate the model’s implications on the relationship between the extent of risk sharing and potential group size; as well as those for welfare. Risk sharing is measured using a standard measure used in the literature (Townsend, 1994), which can also be derived from the model. The measure makes use of the fact that under perfect risk sharing, the ratio of marginal utility of consumption across states should move one-to-one with changes in aggregate

\textsuperscript{12} In doing so, we assume that unstable potential groups are arranging themselves in a manner so as to generate the highest possible insurance for their members.

\textsuperscript{13} Since households are \textit{ex ante} identical, we assume that the social planner places equal weight on each household when deciding how to allocate households in unstable groups to stable sub-groups. However, this assumption can be relaxed easily to allow for arbitrary planner weights. However, note that the transfer rule, and thus expected utility, $v_i(t, s)$, will be the same for all households.

\textsuperscript{14} We use these parameter values so as to illustrate what happens to the extent of risk sharing in a documented case where only a small number of potential group sizes is stable. In Section 5, we illustrate the patterns of risk sharing and potential group size that emerge when we set the parameter values to match our data.

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resources, and hence be unaffected by idiosyncratic shocks. With CRRA utility, this implies that $\Delta \log (c_{igt})$ will be uncorrelated with (negative) idiosyncratic shocks, which we will denote as $\Delta \text{shock}_{igt}$, when risk is perfectly shared through the transfer arrangement. A negative correlation implies that risk is not perfectly shared, with the magnitude providing an indication of the extent of risk sharing: the closer it is to 0, the higher the amount of risk sharing. Welfare is measured using the planner’s expected utility as in (4).

In order to document the relationship between potential group size and the extent of risk sharing, we use the simulated data to estimate

$$
\Delta \log (c_{igt}) = \lambda_0 + \sum_{n=1}^{N} \theta_n \Delta \text{shock}_{igt} \times 1(S_{ig} = n) + \tau_{gt} + \varepsilon_{igt},
$$

where $\Delta \log (c_{igt})$ is the change in log consumption for household $i$ of potential group $g$ between $t$ and $t-1$, $\text{shock}_{igt} = 1[y_{igt} = l]$ is an indicator of whether household $i$ from group $g$ drew the low income realisation, $l$, at time $t$, $\tau_{gt}$ are potential group-time fixed effects and $\varepsilon_{igt}$ is an error term. Perfect risk sharing implies that $\theta_n = 0$.

Figure 1 displays the relationship between the risk-sharing measure and potential group size (top panel) and welfare and potential group size (bottom panel). The figures indicate that households are best insured and achieve the highest expected utility when the potential group size is three, which corresponds to the largest stable group size. For larger potential group sizes, both risk sharing and weighted expected utility fluctuates in a zig-zag pattern. This zig-zag pattern is a result of the integer constraint and of our assumption concerning how households sort into stable groups when the potential group is not stable. To see how, in a potential group of size four, one household would be in autarky, while the other three households could cooperate together in a stable group. Hence, the expected utility of a household is made of the utility of being in a stable group of three with probability 0.75, and of being in autarky with probability 0.25. Consequently, the expected utility of a household belonging to a potential group of size four is smaller than that of a household belonging to a potential group of size three. When the potential group is of size six, two stable groups of size three are formed, and hence households enjoy the same average utility (bottom panel).
Fig. 1. Potential Group Size, Risk Sharing and Welfare – Example from Genicot and Ray (2003)

Notes. The figure shows the relationship between risk sharing (top) and potential group size; and weighted average expected utility (bottom) and potential group size. Colour figure can be viewed at wileyonlinelibrary.com.

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as when the potential group is of size three, which creates the zig-zag pattern (we explain below why a similar pattern does not emerge for the risk-sharing measure).  

Something to note about the zig-zag pattern described above is that the household expected utility is never higher than the utility of a household whose potential group coincides with the largest stable group (size three in the example above). Hence, the average expected utility across potential group sizes which are larger than the largest stable group is always smaller than the average expected utility of households whose potential group coincides with the largest stable group.

Interestingly, the risk-sharing measure (top panel) is lower for the potential group sizes of six and nine than the potential group of size three, whilst they enjoy the same expected utility. This highlights the difference between measuring welfare and measuring risk sharing against idiosyncratic shocks. Whilst welfare is affected by all states of nature, including those with aggregate shocks, only states of nature in which it is possible to share risk contribute to the risk sharing measure (and hence the need to include $\tau_{gr}$ in (5) to account for aggregate shocks at the potential group level). When the potential group is of size three, if all group members draw the same income realization (aggregate shock), there is no scope to share risk but this does not contribute to the identification of $h_3$ because of $\tau_{gs}$ which absorbs the effect of the aggregate shock. For a potential group of size six, households will sort into two groups of three, say group A and group B. With positive probability, there will be states where all households in group A experience the same income draw, while those in group B have a mixture of low and high income draws. Contrary to the potential group of size three, the inability of group A to share risk contributes to the identification of $h_6$ because not all households in the potential group of six draw the same income level. In other words, because the shock was not an aggregate one, there were risk-sharing possibilities in the potential group of six which were not exploited because they divided in two groups of three.

As is clear from the above discussion, what is driving the results is that households sort themselves into groups, which are smaller in size than the potential group. Although coalitional deviations is a natural way to obtain this endogenously, the same result would be achieved if households create small risk-sharing groups for some exogenous reason. Indeed, other models might also imply that the size of the optimal risk-sharing group is smaller than the whole potential group. The presence of coordination costs that are increasing in group size could also yield a similar pattern, as shown by Murgai et al. (2002).  

To be noted, though, and documented by GR, is that the stability of groups is sensitive to parameter values. In particular, changing the parameters $p$, $h$, and $l$ a little can change which group sizes are stable. This is displayed in Figure A.1 in the online Appendix A.2, which plots the two measures of the degree of risk sharing for different levels of $h$ and $l$. The values of these variables have been selected so as to have the same average endowment, but different variances. A higher variance implies a greater need for insurance. The figure indicates that as the need for insurance increases, larger
potential groups become stable, and these groups achieve better risk sharing than smaller potential groups. This is best displayed by the line corresponding with the highest need for insurance \((l = 1.0; h = 4.5)\), and is the lowest line in the left panel of online Appendix Figure A.1. This line increases monotonically up to potential group size seven. By contrast, when the need for insurance is low \((l = 2.2; h = 2.7)\), a case depicted by the top-most line in the left panel of online Appendix Figure A.1, no potential group of size >1 is stable.\(^{18}\)

2. Context and Data

Our empirical setting is Malawi, one of the world’s most impoverished countries, ranking 173rd out of 182 countries on the Human Development Index. Over 80% of its population lives in rural areas, with subsistence agriculture providing the main source of income for a substantial proportion. Infrastructure in rural areas is very weak, with just one in sixteen households having access to electricity, and one in five households having access to piped water.\(^ {19}\) The main crops grown are maize, tobacco and ground nuts. Agriculture is mainly rain-fed, so agricultural production and associated income are highly dependent on unpredictable weather. Access to formal insurance and financial products and services is low, with only 3% of adults holding an insurance product and less than 20% a formal bank account.\(^ {20}\) Instead social connections, particularly family, are important for sharing risk.

2.1. Data Description and Sample Selection

We use data from the Mai Mwana–IFS Economic Survey, a longitudinal survey collected in collaboration with the authors in Mchinji District to evaluate two randomised health interventions, a volunteer infant feeding counselling intervention and a women’s group intervention.\(^ {21}\) The survey interviewed approximately 3,000 women aged 17–43 and their households living in approximately 600 villages across the Mchinji District. It collected detailed information on household consumption, adverse events, individual labour supply, health indicators, assets and demographics, and, guided by this research question, information on extended family networks within and outside the village. There are two waves of data, in 2008–9 and 2009–10. The longitudinal nature of the data allows us to better control for household-level unobserved variables that are correlated with our measure of potential group size, crop losses and risk sharing.

We restrict the analysis to the following sample:

\[(i)\] households living in control areas;

\[(ii)\] households where the main respondent was resident in the same village over both surveys;

\(^{18}\) Average expected utility is nonetheless higher in this case (even in autarky) since the variance of the endowment is much lower.
\(^ {19}\) Source. National Statistics Office (2008).
\(^ {20}\) Source. Finscope Malawi (2009).
\(^ {21}\) See Lewycka et al. (2013) and Fitzsimons et al. (2016b) for findings of the related impact evaluation. The data are available to download at http://discover.ukdataservice.ac.uk/catalogue?sn=6996.
(iii) households where the main respondent in our survey was either the head or the spouse; and
(iv) villages with more than one household surveyed.

Restriction (i) is imposed since the interventions could have altered risk-sharing arrangements within the village, for instance by altering social interactions or improving community cooperation (particularly in the case of the women’s groups). Restriction (ii) is imposed to allow us to correctly account for village-level aggregate shocks. We impose restriction (iii) to ensure that we are studying the networks of individuals with relatively similar intrahousehold bargaining power in the sample. Finally, (iv) is imposed because we control for village fixed effects.

Table 2 displays descriptive statistics of our analysis sample. It contains 524 households living in 102 villages. Note that we recode the male member of a couple (where available) to be the head, while the female member is designated to be the spouse. Both the head and spouse have low levels of education on average, with approximately 16% (7.4%) of household heads (spouses) having some secondary education. Table 2 displays descriptive statistics of our analysis sample. It contains 524 households living in 102 villages. Note that we recode the male member of a couple (where available) to be the head, while the female member is designated to be the spouse. Both the head and spouse have low levels of education on average, with approximately 16% (7.4%) of household heads (spouses) having some secondary education.

Table 2
Sample Descriptives

| Variable                                      | N   | Mean  | SD   |
|------------------------------------------------|-----|-------|------|
| Husband has no education (yes = 1)            | 477 | 0.140 | 0.348|
| Husband has some primary (yes = 1)           | 477 | 0.222 | 0.416|
| Husband has completed primary (yes = 1)      | 477 | 0.478 | 0.500|
| Husband has at least some secondary (yes = 1) | 477 | 0.159 | 0.366|
| Husband’s years of education                 | 477 | 5.157 | 3.514|
| Wife has no education (yes = 1)               | 524 | 0.256 | 0.437|
| Wife has some primary (yes = 1)               | 524 | 0.273 | 0.446|
| Wife has completed primary (yes = 1)         | 524 | 0.397 | 0.490|
| Wife has at least some secondary (yes = 1)    | 524 | 0.074 | 0.263|
| Wife’s years of education                    | 524 | 3.435 | 3.229|
| Age of husband                               | 478 | 37.464| 10.110|
| Age of wife                                  | 524 | 32.648| 8.843 |
| Household size                                | 524 | 5.708 | 2.123 |
| No. kids <6 years                             | 524 | 1.403 | 0.958 |
| No. kids aged 6–12 years                     | 524 | 1.187 | 1.031 |
| No. individuals aged >12 years                | 524 | 3.115 | 1.347 |
| Household owns dwelling (yes = 1)             | 524 | 0.937 | 0.243 |
| Household owns land (yes = 1)                 | 524 | 0.840 | 0.367 |
| Household has good floor (yes = 1)            | 524 | 0.099 | 0.299 |
| Household has good roof (yes = 1)             | 524 | 0.210 | 0.408 |
| No. sleeping rooms                            | 524 | 2.076 | 1.017 |
| Household has access to piped water (yes = 1) | 524 | 0.078 | 0.269 |
| Household has improved latrine (yes = 1)      | 524 | 0.073 | 0.260 |

Notes. The table includes households resident in the same village over both rounds of the Mai Mwana–IFS survey, and where the main respondent was married, and either the head or spouse of her household. Data for some husbands is missing if they are not living in the household at the time of the survey, but are still married to the wife.

22 Fitzsimons et al. (2016a) find suggestive evidence of this.
23 Around 18% of the survey main respondents in the data migrated to another village between 2008–9 and 2009–10. The primary reason for migration was marriage. In additional analysis, we checked whether migration was systematically related with the crop loss, and found no evidence of this.

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schooling or higher. Husbands are older than their wives by on average around five years. Households have on average just over five members, and most own their own dwelling and land. However, the quality of housing is very poor, and households have extremely limited access to water and sewage infrastructure.

2.2. Defining the Risk-sharing Group

We here discuss how we define the potential risk-sharing group. As noted earlier, formal financial markets are all but absent in Mchinji, and there was no government safety net in place at the time of the surveys. Evidence from the anthropology and sociology literature indicates that social connections, and in particular, the extended family, play a critical role in helping households deal with the consequences of risk and adverse events. For instance, Trinitapoli et al. (2014) documents the role of older siblings in protecting educational investments of younger siblings, while Munthali (2002) and Peters et al. (2008) document the instrumental role of the family in fostering and taking care of children orphaned by HIV/AIDS. We also find support for this in our data. In particular, in response to a question on who they expect to receive informal monetary transfers, loans or gifts from in the event of an income loss due to adverse idiosyncratic events (displayed in Table 3), households expect to receive support from two family members and one friend, at the median. The average indicates the opposite pattern, though this is driven by a small number of households who can turn to a large number of friends.

Our data also allows us to look at the actual amounts of transfers, loans or gifts (monetary or in-kind) given to and received from family and friends (Table 4) in the year prior to the survey. The data indicates, on average, households give an annual amount of around 375 MK to family, and receive on average 321 MK. Their transactions with friends are much lower, by a magnitude of two and a half times, with 113 MK given on average and 87 MK received from friends. These pieces of evidence confirm that the extended family is a critical source of risk sharing in this setting. Given the importance of family for risk sharing, we define ‘potential group size’ based on family.

Further anthropological evidence allows us to refine the potential group, in addition to motivating a robustness check to rule out any lingering endogeneity concerns relating to this definition. Within the family, customs are such that a wife’s brothers

| Source of support | Mean | Median | SD  |
|-------------------|------|--------|-----|
| Family            | 1.69 | 2      | 1.68|
| Friends           | 1.94 | 1      | 2.31|

Table 3
Number of Potential Sources of Support Following Adverse Idiosyncratic Event

Notes. This table shows the number of different individuals with a specific social relationship that a household expects to receive help from if it experiences an income loss as a result of an idiosyncratic adverse event.

24 A cash transfer programme, the Mchinji Cash Transfer, was being piloted in a small number of villages in Mchinji at the time of the survey. Less than 3% of households in our sample report receiving the transfer.

25 1% of households report being able to turn to 10 or more friends in case of an adverse event.
should play an important role in ensuring the well-being of her family. The predominant ethnic group in our sample, the Chewa, are a matrilineal and matrilocal ethnic group (Richards, 1950; Phiri, 1983; Mtika and Doctor, 2002). Under matrilineal traditions, society confers a special role on an individual’s maternal family, resulting in a close bond between siblings, even after marriage. Moreover, a woman’s brothers play a crucial role in supporting her family: her eldest brother is responsible for ensuring access of a woman’s family to production resources, healthcare and other items important for household welfare. As a result, children will consult with their maternal uncles as they are responsible for arranging marriages, ensuring the children have access to adequate land and other productive resources, as well as health care (Phiri, 1983; Mtika and Doctor, 2002).

The literature indicates that some practices may be less relevant today, while other aspects of matriliny have proven to be remarkably resilient over time. For instance, the practice of matriloca-

| Source of support | Support given | Support received | Support given + received |
|-------------------|--------------|-----------------|-------------------------|
|                   | Mean         | SD              | Mean                    | SD              | Mean          | SD              |
| Family            | 375.11       | 1,485.83        | 321.22                  | 1,567.91        | 696.78        | 2,378.13        |
| Friends           | 113.59       | 677.72          | 87.65                   | 599.74          | 201.24        | 919.48          |
| N                 | 1,048        | 1,048           | 1,048                   | 1,048           | 1,048         | 1,048           |

**Notes.** This table shows the amounts given to (left panel), received from (middle panel), and given to and received from (right panel) individuals with a specific social relationship by the household in the year prior to the survey for wave one and between surveys for wave two. All amounts are in Malawi Kwacha. The exchange rate at the time of the survey was around US$1 = 140 MK.

In terms of risk-sharing arrangements, data on interhousehold transfers from the Family Transfers Project (collected as part of the Malawi Longitudinal Study of Families and Health) indicates that a wife’s brothers remain an important source for, and recipient of, transfers in a household: 33% (41%) of couples report having received (given) a material transfer from (to) the wife’s brothers in the past growing season, a period of around three to five months. Moreover, they are less likely to receive material transfers from a wife’s sisters (26% report receiving a material transfer), and transfers received are of lower magnitude (351 MK on average is

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26 The Malawi Longitudinal Study of Families and Health is a longitudinal cohort study collecting data on a range of socio-economic and health variables in three areas of Malawi, including Mchinji District. Data are available on around 4,000 individuals from 1998–2012.
received from brothers, compared to 119 MK from sisters). The evidence thus suggests that the brothers of the wife are likely to still play an important role in risk sharing for the household. We thus define the potential risk sharing group to be the number of brothers (and separately, sisters) of the husband and wife.

2.3. Crop Losses

2.3.1. Measuring crop losses

Unexpected crop losses provide our measure of shocks in the analysis. Such crop losses could occur as a result of pests, variation in weather (the effects of which could vary within a village by the type of soil, and other characteristics of the land) and other such factors. The first (second) survey collected information on whether the household experienced any crop loss in the year preceding the survey (since the first survey); and if so, the household head was asked to estimate how much revenue was lost as a result. We use this information to construct two measures of crop loss: the first is a dummy variable equal to one if the household experienced a crop loss event, thereby measuring the incidence of a crop loss; the second is potential revenue lost normalised by a measure of ‘permanent’ consumption, thereby capturing the intensity of the crop loss.

Crop losses are prevalent in this setting, as is evident from Table 5: around 24% of households in our sample experienced a crop loss over the two-year period, losing on average, just over 3,700 MK. This amount corresponds to around one-third of average monthly household food consumption. Among those who experienced a loss, the average loss is around 13,000 MK, or 125% of average monthly household consumption. More crop losses were observed in the year prior to the 2008–9 survey than the 2009–10 one, and the losses experienced were also larger.

Finally, there is some persistence in crop losses among those who experienced a loss. From Table 6, we see that around 8% of households experience a crop loss in both survey rounds, which is higher than what we would expect if crop losses were independently distributed.

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27 These figures come from 220 observations, and are not adjusted for the number of siblings, or other variables.
28 Importantly, the norm does not imply that sisters cannot help each other, or their brothers. Our empirical set-up allows for the possible asymmetry in risk-sharing relationships that could be generated by the norm. In subsection 4.2.3, we consider an extension of the theoretical framework that allows for this asymmetry and the social norm.
29 Crop losses have been used as a measure of adverse events by previous studies e.g. Beegle et al. (2006).
30 The questions were as follows: ‘In the last year (since the last survey) did this household suffer from a bad harvest or crop loss?’ and ‘How much potential revenue was lost as a result of the loss?’
31 Households that experience larger losses may be wealthier and better able to build up buffer stocks to deal with the consequences of risk, in which case we would erroneously conclude that households are well insured. To deal with this, we normalise the potential revenue lost by a measure of the household’s permanent consumption. Household permanent consumption is measured as the component of household consumption predicted by the education of the female main respondent as in 2004. We also experimented with using household asset holdings in 2004 and quality of house in 2004, in addition to the education of the female main respondent, to predict household consumption. A concern with using past household assets, however, is that they may be correlated with a household’s ability to currently smooth consumption, particularly if crop loss events are persistent. Results using this measure are available on request.
32 Under the assumption that the crop loss distributions for the two years are independent, the probability of experiencing a crop loss in both survey rounds is the product of the probability of experiencing a crop loss in 2008–9 and the probability of experiencing a crop loss in 2009–10, which equates to around 5.4% of households.

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2.3.2. Are crop losses idiosyncratic within the village?

The objective of the article is to investigate how the amount of idiosyncratic risk shared by a household varies with the size of its extended family. For our tests to have sufficient power, we require that there is sufficient variation within villages in the incidence of crop losses. Such variation may arise as a result of differences in land quality, with some plots more resilient than others to poor weather; some crop varieties more resilient to poor weather; or due to localised pests or crop diseases. Note that there was no drought or widespread flooding in Mchinji over the survey period. Nonetheless, we investigate the amount of idiosyncratic variation in our data. To do this, Figure 2 displays histograms of the within-village variation in the incidence of a

| Overall sample | N   | Mean | SD  |
|----------------|-----|------|-----|
| Crop loss incidence | 1,048 | 0.242 | 0.429 |
| Income lost ('000s MK) | 1,044 | 3.756 | 19.337 |
| 2008–9 | | | |
| Crop loss incidence | 524 | 0.303 | 0.460 |
| Income lost ('000s MK) | 524 | 5.536 | 26.510 |
| 2009–10 | | | |
| Crop loss incidence | 524 | 0.181 | 0.586 |
| Income lost ('000s MK) | 520 | 1.962 | 6.891 |

Notes. Sample includes households resident in the same village across the two surveys, and where the main respondent was married at the time of the survey and either the head or spouse of the head.

| Persistence of Crop Losses | Crop loss in 2009–10 |
|----------------------------|----------------------|
|                            | No  | Yes | Total |
| Crop loss in 2008–9        |     |     |       |
| No                         | 312 | 53  | 365   |
| (59.54)                    | (10.11) | (69.66) |
| Yes                        | 117 | 42  | 159   |
| (22.33)                    | (8.02) | (30.34) |
| 429                        | 95  | 524 | (81.87) |
| (18.13)                    | (100) |

Notes. Sample includes households resident in the same village across the two surveys, and where the main respondent was married at the time of the survey and is either the head or spouse of the head. Percentages in each category displayed in parentheses, underneath number of households.

33 As we will show below, ideally we would like to be able to control for within-group shocks. However, we are unable to do this since we do not observe information on all members of the group. Controlling for aggregate village shocks allows us to partially account for common shocks experienced by group members in the village.

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crop loss, for each round of data. We see from the figure that there are a number of villages with idiosyncratic variation in the incidence of crop losses.

2.4. Measuring Extended Family Networks

To investigate the relationship between the extent of risk sharing and the size of the extended family, we collected information in the survey on the numbers of siblings of the main respondent and her spouse. Data were collected on the numbers of siblings in the village and the number alive, and on the location of residence of the respondent’s mother and mother-in-law. We use the numbers of siblings as the measure of potential group size. The two surveys – conducted approximately one year apart – captured similar numbers of siblings for a large part of our sample. However, there were some discrepancies in a sizeable minority (30%) of observations, which

Notes. The figure plots a histogram for the proportion of households in each village that experienced a crop loss in wave 1 of the survey (left panel) and in wave 2 (right panel). For legibility of the graph, a peak at 0 with magnitude 10 has been omitted. Colour figure can be viewed at wileyonlinelibrary.com.

34 The exact wording of the questions was as follows: Please tell me how many of the following categories of relatives are currently alive, regardless of where they live: 1. Sisters, 2. Sisters-in-law, 3. Brothers, 4. Brothers-in-law. Please tell me how many of the following categories of relatives are currently living in this village: 1. Sisters, 2. Sisters-in-law, 3. Brothers, 4. Brothers-in-law. Note that in our survey, sisters-in-law and brothers-in-law were translated in a manner so as to capture the siblings of one’s spouse.
could not be explained by naturally occurring changes (e.g. deaths or divorce), and thus point towards reporting errors. To mitigate effects of such errors, we take the average of the reported information in both surveys as the preferred measure of potential group size. Moreover, we use information from the household roster, along with this data, to construct measures of the number of siblings of the husband and wife living outside the household.

Tables 7 and 8 provide some descriptive statistics of sibling networks in this context. Virtually all households have a sibling link outside the household, and a lower, though sizeable proportion (82%), has siblings within the same village. Households have on average nine siblings outside the household, of whom close to three are within the same village. The high numbers of siblings (relative to Western contexts) reflects the high fertility rates in Malawi: the total fertility rate in rural areas was estimated to be around 7.6 in 1984, falling slightly to 6.7 by 2000. At the individual level, almost all

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Table 7

| Any links | Any sibling link of husband | Any sibling link of wife |
|-----------|---------------------------|-------------------------|
| Alive     | 0.996 (0.003)             | 0.985 (0.005)           |
| In same village | 0.819 (0.021) | 0.531 (0.028) |

Notes. The table includes households resident in the same village over both survey rounds, and where the main respondent is married, and is either the head or spouse of her household.

Table 8

| Numbers of Family Links |
|-------------------------|
| No. sibs of husband + wife | No. sibs of husband | No. sibs of wife | Number of |
| Husband | Sisters | Husband | Sisters | Wife |
|---------|---------|---------|---------|------|
| Alive   | 9.418 (0.172) | 4.422 (0.098) | 5.162 (0.113) | 2.281 (0.064) | 2.267 (0.068) | 2.519 (0.069) | 2.740 (0.079) |
| In same village | 2.945 (0.127) | 1.571 (0.081) | 1.498 (0.086) | 0.893 (0.057) | 0.788 (0.044) | 0.811 (0.050) | 0.748 (0.052) |

Notes. The table includes households resident in the same village over both survey rounds, and where the main respondent was married, and either the head or spouse of her household.

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35 This captures the average number of children that would be born to a woman over her lifetime if she were to experience the exact current age-specific fertility rate through her lifetime, and if she were to survive from birth to the end of her reproductive life.
husbands and wives have a living sibling, though roughly one-third of husbands and nearly half of wives do not have a sibling in the same village. On average, wives have more living siblings (~5) than husbands (~4.4), but both have similar numbers of siblings in the same village.

These patterns are in line with post-marital living patterns in this context. As mentioned already, though the Chewa were traditionally matrilocal, this tradition seems to be waning in Mchinji, with roughly half of the wives in our sample moving to their husbands’ village after marriage. Thus, roughly half the wives in our sample has a sibling in the same village, while two-thirds of husbands have a sibling in the same village. In terms of the type of sibling link, husbands and wives have similar numbers of brothers and sisters alive (around two to three of each type on average), though they each have slightly more brothers than sisters living in the same village. The table also indicates that they have, on average, far fewer siblings of either type in the village compared to outside the village.

3. Empirical Model

Our objective is to understand how the amount of risk shared in the face of crop losses varies with the size of a household’s family network. To do so, we require a measure of risk sharing, which can be computed in the available data. One measure implied by the model (assuming utility of the CRRA form) is the deviation of changes in log consumption from the first-best allocation. Under the first-best allocation, where every group is stable, each household will consume an equal share of pooled resources. This means that changes in household-level log consumption should move one-to-one with aggregate group resources, and be uncorrelated with household-level idiosyncratic shocks. Following Townsend (1994), full risk sharing would be tested in our context, using the following regression:

$$\Delta \log(c_{ivt}) = \alpha_0 + \alpha_1 \Delta(\text{crop}_{ivt}) + \Delta X_{ivt} + \mu_{vt} + \Delta \epsilon_{ivt},$$

where $\Delta \log(c_{ivt})$ is the change over time in log consumption for household $i$ in village $v$ at time $t$, $\Delta(\text{crop}_{ivt})$ indicates the change in crop loss incidence or intensity for household $i$ between $t$ and $t-1$, where the crop loss incidence and intensity are measured as explained in subsection 2.3, $\mu_{vt}$ are village-time fixed effects, and $\epsilon_{ivt}$ is an error term. Full risk sharing is consistent with $\alpha_1$ being zero, while a negative value would imply a rejection of full risk sharing.

Because our main interest is to test for risk sharing according to the size of the household’s family network (potential group), we augment the above regression with interactions between $\Delta \text{crop}_{ivt}$ and dummy variables for each potential group size in the data:

$$\Delta \log(c_{ivt}) = \alpha_0 + \alpha_1 \Delta(\text{crop}_{ivt}) + \sum_{n=1}^{N} \beta_n \Delta \text{crop}_{ivt} \times 1(S_{iv} = n) + \Delta X_{ivt} + \mu_{vt} + \Delta \epsilon_{ivt},$$

where $S_{iv}$ is the size of the potential group for household $i$ in village $v$.

36 In online Appendix B, we show how the regression above can be derived from the Townsend (1994) regression that uses changes in income instead of $\Delta(\text{crop}_{ivt})$. 

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The term $1(S_n = n)$ takes the value of one if the household has $n$ brothers or sisters of the head or spouse and 0 otherwise. $\Delta X_{net}$ captures changes in household characteristics, such as household demographics, that could also affect changes in log consumption. The term $\lambda \Delta \text{crop}_{ibt} \times F_{iv}$ controls for direct effects of total sibship size of the husband or wife. $\mu_{vt}$ denote village-time dummies which capture village-level aggregate shocks. The coefficients of interest are $\beta_n$, while the sum of the coefficients $1 + \sum_{n=1}^{N} \beta_n \times 1(S_n = n)$ indicates how well protected a household’s consumption is in the event of idiosyncratic crop losses. In line with the prevailing social norms in this context, which indicate that a woman’s brothers have an important role in helping out their sisters’ households, we conduct the empirical analysis separately for the brothers and sisters of the head of a household and his spouse.

Ideally, we would control for group-level aggregate shocks, rather than just village-level aggregate shocks. However, we are unable to do so since we do not observe the crop losses or consumption of all members of the potential group. As a result, the group-level aggregate shock is an omitted variable, which will bias the estimates of interest if it is correlated with potential group size or with crop loss incidence. To assess the consequences of this, we run some simulations where we generate data from a data generating process similar to that implied by the model in Section 1 (parameterised using values similar to those in the data), and use these to shed light on the direction and magnitude of the resulting omitted variable bias. The findings from this exercise are in subsection 4.2.

We include changes in crop loss, rather than crop loss in levels, as a measure of idiosyncratic shock for the following reason: assume we used the crop loss incidence between periods $t$ and $t + 1$ as the shock measure. The concern with this is that, in the absence of perfect risk sharing, a household may already have low consumption at period $t$ if it experienced a crop loss between periods $t - 1$ and $t$. Moreover, assume it experiences another crop loss between $t$ and $t + 1$, and its consumption remains low at time $t + 1$, resulting in little or no change in $\Delta \log(c_{it})$. The household would then erroneously appear to be perfectly insured. Failing to account for this would lead to the erroneous conclusion that households are perfectly insured since their consumption does not respond to a crop loss. For this reason, we define the shock measure as the difference in incidence (or intensity) of a crop loss between periods $t - 1$ and $t$ and between $t$ and $t + 1$.\footnote{We look at this more formally in online Appendix B. A further issue with focusing on incidence of rather than changes in crop losses is that we do not account for other risk faced by the household, which may affect both their consumption smoothing and the shocks they experience. To assess the importance of this issue in our context, we estimated specifications controlling for other idiosyncratic shocks experienced by the household (business shocks, theft and marriage break-up) and found it made little difference to the key coefficients of interest.}

This specification can shed light on the shape of the relationship between our measure of risk sharing and the size of a household’s potential group. However, this approach, which is fully non-parametric in the number of siblings, may not have sufficient power to identify statistically significant effects. To improve power, we divide potential group size into three bands, the cutoffs of which are motivated by the findings from the non-parametric regression above, and use the following specification for the empirical analysis:
\[ \Delta \log(c_{itv}) = \alpha_0 + \alpha_1 \Delta(crop_{itv}) + \sum_{g=1}^{G} \beta_n \Delta crop_{itv} \times 1(NS_{g,itv} = 1) + \Delta X_{itv} \]  
\[ + \lambda \Delta crop_{itv} \times F_{iv} + \mu_{it} + \Delta \epsilon_{it}, \]  
(8)

where \(1(NS_{g,itv} = 1)\) takes the value one if the household’s network size is within the cutoffs associated with band \(g\), and 0 otherwise; and the rest of the variables are as defined above.\(^{38}\)

4. Results

4.1. Main Specification

We first estimate (7), separately for the brothers and sisters of the husband and wife. Figures 3 and 4 plot the coefficients from these regressions. We have extremely limited power in these specifications, and thus suppress the confidence intervals for these coefficients from the figures. Despite the limitations in power, these figures shed light on the possible shape of the relationship between informal risk sharing and potential group size in our data.

From the figures, we can see that there are differences in the amount of consumption smoothing in the face of crop losses, by the size and types of family relations. In particular, Figure 3 indicates that changes in log consumption are increasing in the number of brothers of the husband (implying better consumption smoothing), and decreasing in the number of sisters of the husband. Regarding the wife’s siblings, we first consider her brothers. The figures indicate that the consumption of households where she has few brothers is almost perfectly smoothed, but displays a non-linear, zig-zag pattern the more brothers she has. This is most clear for the intensity measure: risk sharing worsens as the number of brothers increases from two to three, four to five and six to seven; it improves as the number of brothers increases from three to four and from five to six. This is consistent with the simulations in Section 1. By contrast, no such relationship is seen for the wife’s number of sisters.

However, we do not have sufficient power to obtain statistically significant estimates with the non-parametric analysis. To gain power, we pool the number of siblings of a particular gender into three groups: those with zero siblings of that gender, those with one to two, and those with three or more. These groups are in line with the evidence in the Figures 3 and 4, while also ensuring that each group has sufficient sample size to improve power. Grouping the number of siblings in this way also prevents us from directly testing the zig-zag pattern between risk sharing and group size implied by the simulations in Section 1.\(^{39}\) Table 9 presents the results for this specification, with our two measures for the crop loss shock: incidence and intensity. The top left (right) panel displays the results pertaining to

\(^{38}\) The exact cutoffs for the different bands are defined in Section 4.

\(^{39}\) The sample sizes of households with large numbers of brothers of the wife are small, which also further prevents us from testing this implication of the model more directly.

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the husband’s (wife’s) brothers. The bottom left (right) panel displays the results for the husband’s (wife’s) sisters.

The regression coefficients indicate that households where the wife has more than three brothers experience much worse risk sharing following crop losses than those where she has fewer than three (i.e. zero or one to two) brothers. We detect no such relationship for the brothers of the husband. This finding is replicated across both our measures of crop losses—incidence and intensity. The coefficient estimates indicate that households where the wife has more than three brothers cut their consumption by approximately 26% when hit by a crop loss, while the intensity measure indicates that a crop loss of a magnitude equivalent to a month’s consumption leads to a reduction in household consumption of approximately 18%.

The bottom panel of the table indicates worse risk sharing (significant only for the intensity measure) among households where the husband has any sisters, as can be evidenced by the positive coefficient on the interaction term for no sisters, and the negative coefficient on the interaction term for more than three sisters. Such a pattern is not found for the sisters of the wife or the brothers of the husband. The absence of any significant differences in risk sharing by the number of sisters of the wife is consistent with the evidence shown in subsection 2.2 which indicated that sisters of the wife are less important for risk sharing. However, it is not implied by the model of Section 1, which assumes that all agents are \textit{ex ante} identical. In subsection 4.2.3, we
extend the model to include two types of agents as well as the social norm and consider whether this extended model can explain this finding.

4.2. Robustness

The analysis in the previous subsection indicates that households where the wife (husband) has many brothers (sisters) achieve worse risk sharing following an idiosyncratic crop loss. In this Section, we report on various exercises undertaken to ascertain the robustness of this finding. In particular, we rule out that this finding is the result of unobserved common group shocks, or because larger networks are poorer, or because there is higher competition for resources among networks with many males, or because larger networks are more vulnerable to crop losses. This Section deals with each of these in turn.

4.2.1. Aggregate extended family shocks

As mentioned above, our data allows us to adequately account for common shocks at the village level but not at the extended family level. This means that we cannot perfectly control for changes in aggregate resources at the potential group level, possibly biasing our estimates. We use simulations to assess the magnitude and sign of this bias. We
generate data under the assumption that risk is shared according to the model in Section 1, and parameters are set to match those in our data (where possible). In particular, we set the group size distribution to match the empirical distribution of brothers of the wife. Aggregate shocks happen naturally under the income process of the model in Section 1; because there are only two income levels, the probability that all family members have the same income realisation is strictly positive. Households’ consumption rules are estimated numerically from the model. In Table 10, we assess how the coefficients on a specification similar to regression three change when we control for extended family group dummies instead of village dummies. The table indicates that all the coefficients are indeed biased, as expected. In terms of the sign of the bias, \( z_1 \), the coefficient on the \( \Delta crop \) variable, is biased downwards. By contrast, the coefficient on \( \Delta crop_{ij} \times 1(\text{NS}_{g,iv} \geq 3), \beta_2 \), is biased upward. So, if anything, we are likely to be underestimating the negative effect of larger groups on risk sharing. The underlying intuition for this is that the village dummies do a (marginally) better job of controlling for group shocks for larger potential groups than for smaller ones. Online Appendix D provides a more detailed explanation of this.

Table 9

| (1) | (2) | (3) | (4) |
|-----|-----|-----|-----|
| \( \Delta \log c_{ijt} \) | \( \Delta \log c_{ijt} \) | \( \Delta \log c_{ijt} \) | \( \Delta \log c_{ijt} \) |
| Siblings of husband alive | Siblings of wife alive | Siblings of husband alive | Siblings of wife alive |
| Shock = crop | Shock = loss/pred. cons | Shock = crop | Shock = loss/pred. cons |
| \( \Delta shoc k \) | 0.0834 | 0.0002 | 0.0692 | 0.0552 |
| (0.0784) | (0.0507) | (0.1046) | (0.0607) |
| No brothers \( \times \) \( \Delta shoc k \) | -0.1452 | -0.0649 | 0.0080 | 0.0642 |
| (0.1519) | (0.1518) | (0.1568) | (0.0618) |
| \( \geq 3 \) brothers \( \times \) \( \Delta shoc k \) | 0.0088 | 0.0488 | -0.2560** | -0.1703*** |
| (0.00970) | (0.00458) | (0.1128) | (0.0589) |
| \( N \) | 524 | 519 | 524 | 519 |
| \( R^2 \) | 0.3047 | 0.3110 | 0.3181 | 0.3320 |
| \( \Delta shoc k \) | -0.0707 | -0.0809 | 0.1840* | 0.0704 |
| (0.1041) | (0.0491) | (0.0962) | (0.0516) |
| No sisters \( \times \) \( \Delta shoc k \) | 0.1488 | 0.1601 | -0.0715 | 0.0391 |
| (0.1111) | (0.0993) | (0.1134) | (0.2345) |
| \( \geq 3 \) sisters \( \times \) \( \Delta shoc k \) | -0.1413 | -0.0955* | 0.0206 | -0.0073 |
| (0.0997) | (0.0482) | (0.1133) | (0.0569) |
| \( N \) | 524 | 519 | 524 | 519 |
| \( R^2 \) | 0.3089 | 0.3202 | 0.3185 | 0.3188 |

Notes. *** Significant at the 1% level; ** the 5% level; * the 10% level. Standard errors clustered at the village level in parentheses. Regressions pool together all households where a married head or spouse was surveyed, and who were resident in the same village for both survey rounds. All specifications control for village-time dummies, changes in household demographics and controls for the number of other siblings interacted with the crop loss. ‘Crop’ indicates whether or not a household suffered a crop loss, while ‘loss/pred. cons’ measures the intensity of the crop loss as the income lost normalised by predicted household consumption.

40 Full details on the simulations and estimation equation are provided in online Appendix C.
4.2.2. Are larger networks poorer?

An important concern is that our findings may be driven by unobserved factors that drive both network size and changes in log consumption. One such set of factors relates to the fact that households with larger family networks may be poorer. Larger families have long been observed to be poorer in a variety of contexts. This could make them less able to provide support to other family members when they need it, thus leading to worse risk sharing. We provide evidence that our results are not driven by the fact that larger families are poorer.

First, we fail to find similar results for the sisters of the wife, and for the brothers of the husband. If the findings were being driven by a family size effect, rather than being the effect of having many brothers, we would expect to find that households with many sisters are also less well protected from crop loss events. Of course, this argument is only valid if households with many sisters and those with many brothers are not different in other dimensions. To assess whether this is the case, we test whether households where the wife has ≥3 brothers and <3 sisters are different to households with ≥3 sisters and <3 brothers, focusing on dimensions that are less likely to have changed as a result of recent shocks experienced by households. The findings from this analysis are displayed in Tables 11 and 12 for the husband and wife, respectively.

As can be seen from the tables, we find only a few differences in the small set of observable characteristics of the husband and wife in these two types of households. In particular, there are no significant differences in the amount of education of the husband or wife in households where the husband (wife) has ≥3 brothers and those where he (she) has ≥3 sisters. Although males typically have a higher level of education
than females, there is no difference in education levels by the sex composition of the individual’s sibship.\footnote{41}

4.2.3. \textit{The role of sisters of the wife}

An interesting question is why we do not find a negative effect of the wife’s sisters on risk sharing. Though this finding is in line with the social norm, the model outlined in Section 1 does not speak to this issue. To further investigate the role of sisters, we extend the original model to explicitly allow for the social norm. Specifically, we allow for two types of agents – brothers (type $m$) and sisters (type $f$) – and impose a social penalty (which we model as a utility loss) for brothers if they deviate in sub-groups

\footnote{41 The differences in education levels by gender are likely to be driven by gender differences in the economic returns to education rather than due to explicit gender discrimination by parents. To our knowledge, there is no evidence of sex discrimination in investments in children at either the pre-natal or post-natal stage. Indeed, when we analyse the effects of a randomised infant feeding counselling intervention in this context by gender, we find no differences in nutritional investments in children by gender. These results are available on request.

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excluding any of their sisters.\textsuperscript{42} This formulation captures the social norm that brothers face: a ‘social penalty’ from leaving their sisters unattended. Online Appendix A.3 provides more details on the model formulation.\textsuperscript{43}

Solving the model for the same parameter values as GR Example 2 above, we find that stable groups tend to be more robust to adding sisters than brothers. This is apparent from Figure 5 which displays the stability status of groups of different sizes and compositions for two different values of the social penalty. For both values of the penalty considered, we see that adding a sister to a stable group is less likely to destabilise it compared to an additional brother. This is most apparent when looking at combinations with one brother. In both panels, adding sisters (up to four in total) does not destabilise the group. By contrast, in combinations that include one sister only, adding brothers beyond two brothers in total destabilises the group. The intuition for this pattern is as follows: since brothers face a penalty when deviating in sub-groups that cut out their sisters, they are less likely to do so. Moreover, the penalty also implies that brothers will make transfers to sisters that would have otherwise been too large to be incentive compatible, giving sisters an additional incentive to stay in the group. Thus when sisters are added to the group, neither the brothers nor sisters are likely to be tempted to leave.

Interestingly, we also see that more groups are stable as the social penalty increases. This is intuitive as a higher penalty makes some deviations unprofitable. Overall, the simulations indicate that additional sisters are less likely to destabilise potential groups than brothers, which explains why we do not find a negative effect of a woman’s sisters on risk sharing.

4.2.4. Number of brothers and competition for resources

Another concern is that there might be more competition for production resources among families with many males: essentially, if land is passed down to males only, and there are many males in a particular family, each male would receive a smaller land plot, and thus would be less able to help his sisters’ households when they face idiosyncratic shocks. The land descent system in Mchinji is a mixed one: some households practice a patrilineal system and pass on land to males, whereas others practice a matrilineal system and pass on land to females. We provide some suggestive evidence to rule out this channel. In particular, though we do not have information on the landholdings of siblings of the husband or wife, we can look at whether there are any differences in the size of land between households where the husband has many brothers and few sisters compared to those where the husband has many sisters but few brothers. If the patrilineal form of land descent were dominant in our sample (which we do not believe it to be), we would expect households where husbands have many brothers and few sisters compared to those where the husband has many sisters but few brothers. If the patrilineal form of land descent were dominant in our sample (which we do not believe it to be), we would expect households where husbands have many brothers to have smaller plots of land than households where the husband has many sisters. Examining the data, we see that households where the husband has three or more brothers and fewer than three sisters have on average 2.9 hectares of land, whereas those where the husband has three or more sisters and fewer than three brothers have on average 2.7 hectares of land. This difference is not statistically

\textsuperscript{42} The penalty is modelled as a utility loss that is increasing in the number of sisters not in the brother’s deviating sub-group.

\textsuperscript{43} The simpler model in Section 1 is sufficient for us to obtain the key predictions about group size. We only require the extended model to study the validity of the placebo test.
4.2.5. Potential group size and incidence of shocks

A final concern is that larger extended families could be more vulnerable to crop loss events, particularly if they are poorer. In this case, the deficiencies in risk sharing detected above may be a consequence of poverty, rather than a breakdown of risk sharing due to unstable coalitions.

To see if this is the case, we consider how the incidence and intensity of crop losses vary with potential group size. To do so, we regress the crop loss and intensity variables

Fig. 5. Stability of Potential Groups with Different Compositions, Extended Model

Notes. This figure shows whether or not different group compositions are stable to coalitional deviations, when type $m$ agents are subject to a utility loss (social penalty) $a \times (n_f - s_f)$ where $n_f =$ number of type $f$ agents (i.e. sisters), and $s_f =$ number of type $f$ agents (sisters) in the agent’s deviating sub-group. The model parameters are the same as in GR Example 2. Given the model parameters, $a = 0.05$ corresponds to around 7.5% of expected utility in autarky; and $a = 0.2$ to 30% of expected utility in autarky. The lighter shade indicates stable groups and the darker shade unstable groups. Colour figure can be viewed at wileyonlinelibrary.com.
on our network size variables, pooling data from both survey rounds. Table 13 displays the results. The table does not indicate that households where the wife has many brothers are more vulnerable to crop loss events compared to households where the wife has fewer brothers. Thus, we can rule out that our finding of poor risk sharing among these households is driven by this channel. Interestingly, we find a negative coefficient for households where the wife has three or more sisters: such households are less likely to be affected by a crop loss incident, though there is no difference detected in the intensity of the crop loss.

5. Calibration

The empirical results show that households where the wife (husband) has a large number of brothers (sisters) achieve worse risk-sharing outcomes compared to households where the wife (husband) has fewer brothers (sisters). The theory indicates that the relationship between risk sharing and potential group size is ambiguous and sensitive to parameter values: for some combination of parameters, larger potential groups can offer better risk sharing, while for others, they offer worse risk sharing. We also, unfortunately, lack sufficient power to test for the zig-zag pattern between risk sharing and group size implied by the simulations, which would have provided a more direct test of the model. To investigate whether the findings can be explained by the theory, we conduct a calibration exercise to see if the model can reproduce the empirical findings when parameter values are set to be similar to those in our data.

We parameterise the value of the high and low endowment as follows: From the data, we obtain the average annual household income from agriculture for all households in

| Siblings of husband alive | Siblings of wife alive |
|--------------------------|------------------------|
| (1) Crop loss incidence  | (2) Crop loss intensity |
| No brothers              | ≥3 brothers            |
| −0.0571                  | −0.014                 |
| (0.0452)                 | (0.0262)               |
| 0.0036                   | 0.0075                 |
| (0.0548)                 | (0.0285)               |

| N                    |
|----------------------|
| 1,131                |

| R²                   |
|----------------------|
| 0.0244               |

| (3) Crop loss incidence | (4) Crop loss intensity |
|-------------------------|-------------------------|
| No sisters              | ≥3 sisters              |
| −0.0036                 | −0.0075                 |
| (0.0548)                | (0.0285)                |

| N                    |
|----------------------|
| 1,131                |

| R²                   |
|----------------------|
| 0.0262               |

Notes. *** Significant at the 1% level; ** the 5% level; * the 10% level. Standard errors clustered at the village level in parentheses. Regressions pool together all households where a married head or spouse was surveyed and who were resident in the same village for both survey rounds. ‘Crop loss incidence’ is a dummy variable that indicates whether the household experienced a crop loss in the previous year (or since the last survey), while ‘Crop loss intensity’ is the size of the crop loss normalised by predicted household consumption.
the sample, \( \bar{y} \). This is equivalent to a weighted average of the high and low endowment states, where the low endowment state is taken to be the high endowment state less the crop loss (in nominal terms, without normalising for predicted consumption):

\[
\bar{y} = p \times h + (1 - p)(h - \text{crop}).
\]  

(9)

We obtain the values for \( \bar{y}, p \) and \( \text{crop} \) from the data, and use the formula (9) to back out the values for \( h \) and \( l \), respectively. Table 14 displays the resulting parameters. In addition to these parameters, we also need to specify a value for the coefficient of relative risk aversion, \( \rho \) and the discount factor, \( \delta \). We set \( \rho = 1.5 \) and \( \delta = 0.95 \). The value for \( \delta \), which is lower than that typically estimated for developed countries, is within the range estimated for India by Ligon et al. (2003).44

Figure 6(a) plots the value for average expected utility and group size while Figure 6(b) plots risk sharing on group size. What is striking is that weighted expected utility increases with potential group size initially, but then falls before increasing again in a zig-zag pattern. This pattern can be explained by the fact that given the parameter values, only groups of size one and two are stable. Larger potential groups would then sort randomly into the smaller stable groups, for example groups of size three would sort into groups of size one and two. Since expected utility under autarky is lower than in a group of size two, this results in a drop in average expected utility for a potential group of size three. In fact, such an argument holds for all odd-sized potential groups, while even-sized potential groups would sort into sub-groups of two and attain the same average expected utility as a group of size two. A similar pattern holds for risk sharing.

Importantly, the drop in expected utility and risk sharing when moving from a potential group of size two to three matches the pattern found in the data, suggesting that threats of coalitional deviations may be a possible explanation for the worse risk sharing for households where the wife has many brothers.

Table 14

| Parameter | Value       |
|-----------|-------------|
| \( h \)   | 61,223.64 MK|
| \( l \)   | 46,475.64 MK|
| \( p \)   | 0.63        |
| \( \delta \)| 0.95        |
| \( \rho \) | 1.5         |

Notes. This table displays the parameter values used to calibrate the theoretical model. The values for the high and low endowments, \( h \) and \( l \) are in Malawi Kwacha (MK). The exchange rate at the time of the survey was roughly US$1 = 140 MK.

44 This value of \( \delta \) is higher than that estimated from experimental elicitation tasks such as Andreoni and Sprenger (2012), among others. Nonetheless, we experimented with lower discount factors in the calibration and found that more group sizes became stable as the discount factor was lowered to \( \delta = 0.86 \). This is driven by potential deviating coalitions becoming unstable faster than the group itself as discount rates fall.

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Fig. 6. Calibration Findings – Average Expected Utility and Potential Group Size

Notes. The figure in the top panel shows the relationship between weighted average expected utility and potential group size, while that in the bottom panel shows the relationship between the risk-sharing measure and potential group size. Colour figure can be viewed at wileyonlinelibrary.com.
6. Conclusion

In this article, we study the relationship between group size and the extent of risk sharing in a setting with limited commitment and coalitional deviations. In such environments, two forces are at play in determining the relationship between group size and risk sharing: on the one hand, larger groups allow for more effective diversification, and hence better risk sharing. On the other hand, larger groups are more vulnerable to deviations by sub-groups (coalitions) of households who can renege on the informal arrangement and continue sharing risk in the smaller sub-group. Thus, risk-sharing groups will be bounded from the top (Genicot and Ray, 2003). In this paper, we extend the model of Genicot and Ray (2003) and use simulations to show that the relationship between risk sharing and group size is theoretically ambiguous. The nature of this relationship is thus an empirical question.

We investigate this question empirically using data from rural Malawi, and overcome the challenge posed by the fact that the size of the actual risk-sharing group is endogenous, by considering potential group size, and focusing on a group likely to be exogenous – siblings of the household head and spouse. Evidence from the anthropological and sociological literatures indicates that the extended family is a crucial risk-sharing institution in the setting we study. Moreover, historical, well-documented norms at play in this context indicate a much more important role for a wife’s brothers, than for her sisters, in providing risk sharing. These norms highlight an important source of heterogeneity in risk-sharing patterns, and also allow us to construct placebo tests to alleviate concerns that unobserved factors correlated both with our measures of potential group size and with the efficiency of risk sharing, are driving our findings.

We consider how well protected a household’s consumption is to idiosyncratic crop losses – a salient source of risk in this setting – allowing the effects to vary by the size of the family network of the husband and wife (defined separately by gender of sibling). In line with the literature on informal risk sharing, we measure the degree of risk sharing by the correlation between changes in household log consumption and idiosyncratic crop losses (net of aggregate shocks at the village level). A first non-parametric specification, which places no restrictions on the shape of the relationship between the degree of risk sharing and potential group size, indicates that this relationship is non-linear. However, these estimates are extremely imprecise.

To increase power, we divide group size into three bands, the boundaries of which are informed by the non-parametric analysis. Estimates from this specification indicate that households where the wife (husband) has many brothers (sisters) achieve worse risk-sharing relative to households where she (he) has fewer brothers (sisters). We fail to find a similar relationship for the wife’s sisters (brothers), which indicates that the relationship is unlikely to be driven by the fact that households where the husband/wife have many siblings are poorer. Moreover, we show that these households are not more susceptible to crop losses, suggesting that the findings are not driven by this margin either. We also provide suggestive evidence to rule out other channels, including higher competition for production resources among extended families with many male siblings. A calibration exercise, where we parameterise our theoretical framework using information from the data (where available), indicates that the empirical patterns could be produced by the theory.

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Thus, larger potential risk-sharing groups need not yield better risk sharing outcomes, indicating a role for governments and other actors to implement policies and mechanisms to better protect household well-being, taking into account family dynamics.

Additional Supporting Information may be found in the online version of this article:

Appendix A. Additional Model Results.
Appendix B. Derivation of Risk Sharing Regression.
Appendix C. Details of Simulations to Assess the Sensitivity of Parameter Estimates to Aggregate Extended Family Shocks.
Appendix D. Bias Emerging from the Omission of Potential Group-time Fixed Effects.
Data S1.

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