

Insurance and Investment in the Extended Family

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Abstract:

We study the role of extended family networks as providers of informal insurance and facilitators of investment in poor rural Mexican villages. Related households (or “connected”) can achieve higher insurance and investment than unrelated households (or “isolated”) if the family network eases commitment and information issues. Despite having similar characteristics in 1997, the connected have a smoother consumption and a bigger increase in consumption, income, and investment than the isolated between 1997 and 2003. Households share risk only within the extended family and a large share of connected households fully shares idiosyncratic risk. When hit by negative health shocks, the isolated increase child labor, reduce school attendance, and deplete their livestock more than the connected. Positive income shocks increase education only for the connected. We conclude that the extended family provides insurance and favors investment.