Are the poor less well insured?

Evidence on vulnerability to income risk in rural China

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We test how well consumption is insured against income risk in a panel of sampled households in rural China. The risk insurance models are estimated by Generalized Method of Moments treating income and household size as endogenous. Partial insurance is indicated for all wealth groups, although the hypothesis of perfect insurance is universally rejected. Those in the poorest wealth decile are the least well insured, with 40% of an income shock being passed onto current consumption. By contrast, consumption by the richest third of households is protected from almost 90% of an income shock. The extent of insurance in a given wealth stratum varies little between poor and non-poor areas.