Measuring Risk Attitudes among Mozambican Farmers

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Abstract

Although farmers in developing countries are generally thought to be risk averse, little is known about the actual form of their risk preferences. In this paper, we use a relatively large field experiment to explore risk preferences related to sweet potato production among a sample of farmers in northern Mozambique. We explicitly test whether or not preferences follow the constant relative risk aversion (CRRA) utility function, and we explicitly test whether farmers follow expected utility theory or cumulative prospect theory in generating their preferences. We find that we can reject the null that farmers' preferences follow the CRRA utility function, in favor of the more flexible power risk aversion preferences. In a mixture model, we find that about three-fourths of farmers in our sample develop risk preferences by cumulative prospect theory. We find that by making the common CRRA assumption in our sample, we poorly predict risk preferences among those who are less risk averse.

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1 Introduction

Although it is generally assumed that farmers in rural areas of developing countries are risk averse, little is known about the actual form of their risk preferences. When economists attempt to measure risk preferences, they typically assume that risk preferences follow the constant relative risk assumption (CRRA) utility function (see Cardenas and Carpenter (2008) or Hurley (2010) for recent reviews of the literature). However, the consequences of simply making this assumption without testing it are unclear. Few studies actually test risk preferences in the field without making the CRRA assumption. An important exception is Holt and Laury (2002) who consider a more flexible parameterization of the utility function, although they do so in a laboratory experiment setting.

Furthermore, it is likely that risk preferences among farmers in developing countries are important constraints that keep farmers from reaching their productive potential. Boucher et al. (2008) argue theoretically that a class of farmers is risk-rationed in Peru; that is, due to risk some farmers will not try to access the formal credit market, even if it would raise their productivity and income levels. Dercon and Christiaensen (2011) show that Ethiopian farmers are constrained in technology adoption by risk. In general, then, improving products that are available for farmers to cope with risk could help them improve incomes and well-being more generally.

The issue of better characterizing risk preferences may be particularly important as programs are designed that are meant to introduce new products to farmers. Given the understanding of risk as a primary constraint in making progress on poverty alleviation, it is not surprising that recently economists have begun to design programs to help farmers overcome risk and more specifically their risk aversion. For example, in several countries weather insurance pilot projects have begun (e.g. Giné and Yang (2009); Hill and Viceisza (2010)). However, such projects may be unsuccessful without a proper understanding of the risk preferences of farmers. Additional information about the type and distribution of risk preferences among farmers can be important information in informing intervention design.

In this paper, we use experimental data collected in rural Mozambique to elicit risk preferences of farmers participating in an agricultural program that promoted orange fleshed sweet potatoes (OFSP). The data were collected in the final survey of a randomized evaluation designed to evaluate the intervention, which provided farmers with OFSP vines, information about how to grow OFSP, and the relative nutritional benefits of consuming orange rather than white sweet potatoes, particularly for women of child bearing age and children under five years old.

The experiment to elicit risk preferences was framed around the adoption of sweet-potato varieties and consisted in presenting a menu of ordered lottery choices over hypothetical gains to the farmers. The experiment was conducted with 682 farmers. We use the data to consider and test against one another several models of risk preferences. We initially compare two contending models of choice under uncertainty, Expected Utility (EUT) and Cumulative Prospect Theory (CPT). We then consider a general class of value functions that explicitly allows for variation in relative risk aversion, extending the assumption of constant relative risk aversion that is often made in the literature.

Our primary contribution to the literature is that we use experimental data collected in the field to nest different potential models of risk preferences, and then we develop and test these models against one another. We further construct a model that allows for heterogeneity in the theoretical basis for risk preferences; namely, EUT or CPT. In general, we find that the CPT dominates EUT, and we generally reject the CRRA hypothesis regardless of the form of preferences. We further study the type of errors that one makes in determining risk preferences if we assume CRRA, and find that we mischaracterize more farmers who are less risk averse than farmers who are more risk averse when we make the CRRA assumption.

The paper will proceed as follows. The next section will discuss the literature on the meaurement of risk preferences, both in the laboratory and in field experiments. The third section will describe the setting in which the data collection and field experiment took place, the data collection effort, as well as more details about the field experiment. The fourth section will describe the results, and the final section will conclude.

2 Measuring Risk Preferences in Developing Countries

There is a large body of literature related to the characterization of risk attitudes in developing countries. In most cases, the conceptual framework used to frame these tests is EUT, although more recently some authors have also considered some version of CPT. Previous work on the characterization of risk preferences have been based either on the use of experimental lotteries or on the analysis of production decisions collected from household survey data. We will focus on the first line of work since this paper also uses experimental lottery data from the field. We only refer here to a number of selected papers which are directly relevant to our analysis[1].

Binswanger (1980, 1981) are among the first studies to provide formal tests of risk aversion among farmers in a developing country. They propose both hypothetical and real payoff lotteries to Indian farmers where the outcome probabilities are fixed, but the payoffs of the lotteries are varied. These studies found that most Indian farmers in the study were averse to risk, and that the degree of risk aversion would increase with the monetary payoff of the lotteries. Overall, these results suggested that farmers choices were consistent with increasing relative risk aversion (IRRA) and decreasing absolute risk aversion (DARA).

Using similar procedures, Miyata (2003) and Wik et al. (2004) look respectively at Indonesian and Zambian villagers. Confirming Binswanger (1980, 1981)'s findings, they also find that farmers preferences are caracterized by extreme to moderate degrees of risk aversion, by DARA, and by non-increasing/decreasing relative risk aversion.

Mosley and Verschoor (2005) look at three different countries (Ethiopia, India and Uganda), and they combine choices over lottery pairs with hypothetical certainty equivalent questions. Similarly to Binswanger (1980, 1981), they do not find any significant relationship between risk aversion and respondents characteristics such as age, gender, literacy, income or wealth. Responses obtained from the hypothetical certainty equivalent questions, however, do correlate significantly with the data collected through real payoff lottery choices.

Hill (2009) relies on stated preferences and beliefs to identify the effect of risk aversion on production decisions for a sample of Ugandan coffee growers. Using both nonparametric and regression analysis, she finds that higher risk aversion translates into lower allocation of labour towards a risky perennial crop such as coffee. For wealthier farmers however, this effect is only minimal.

Yesuf and Bluffstone (2009) use data obtained from northern Ethiopia, and contrarily to Binswanger (1980, 1981) or to Mosley and Verschoor (2005), they find that risk aversion is significantly correlated with respondents characteristics such as household composition, income and wealth.

More recently, Liu (2008), Tanaka et al. (2010), and Harrison et al. (2010) depart from the previously cited work in that they consider an alternative utility framework to EUT by considering a CPT environment. These studies also contrast with previous work in the way lottery choices are elicited. Instead of fixing the outcome probabilities and varying the lottery stakes (as was proposed by Binswanger (1980)), they follow Holt and Laury (2002) and use multiple price lotteries (MPL) where the

[1] See Hurley (2010) for a recent and more exhaustive review.

lottery payoffs are fixed in each choice task, and the outcome probabilities are varied. While Liu (2008) and Tanaka et al. (2010) analyze the CPT framework over the full range of gains and losses, Harrison et al. (2010) focus on the gain domain only and they compare EUT to CPT by testing the non-linearity of the probability weighting function. Harrison et al. (2010) also estimate a finite mixture models allowing both EUT and CPT to explain some proportion of respondents choices over risky lotteries. By letting the two preference frameworks coexist in the data, they find that households behaving under EUT are risk averse while those behaving according to CPT are risk seeking.

In Table 1 we summarize some essential characteristics of the work cited above. As can be seen in this table, most of the previously mentioned studies relied exclusively on CRRA utility functions to compute coefficients of relative risk aversion. Under EUT, CRRA utility functions are convenient to work with because they summarize attitudes towards risk in a single parameter which is related to the curvature of the utility function. This simplicity in the functional form comes at the cost of generality since there is no reason to believe a-priori that risk attitudes should be characterized by increasing relative risk aversion. Using US students responses from laboratory experiments, Holt and Laury (2002) is the only work we are aware of in this literature to relax the CRRA assumption. They notice that respondents choices are actually more consistent with IRRA than with CRRA, so they consider a power utility function allowing the relative risk aversion coefficient to be either decreasing, constant or increasing.

In this paper, we build on the previous literature by considering a general utility specification which allows us to test altogether EUT against CPT[2], and CRRA against a more general valuation function.

3 The Field Experiment

The field experiment that we discuss was conducted as part of the final survey in the impact evaluation of the HarvestPlus Reaching End Users (REU) project in northern Mozambique. The REU was an integrated agricultural project with a goal of reducing vitamin A deficiency among young children by introducing orange fleshed sweet potatoes (OFSP) as a crop and a source of vitamin A. To attempt to improve vitamin A status among children, the project combined agricultural extension focused on OFSP, nutrition extension focused on vitamin A benefits and consumption, and a marketing

[2]In this work, similarly to Harrison et al. (2010) but contrarily to Liu (2008) or to Tanaka et al. (2010), we actually consider a version of CPT which is restricted over the gain domain.

component.

3.1 The Reaching End Users Project in Zambezia

The REU project took place between 2006 and 2009 in four districts of Zambezia, Mozambique (Figure 1). The program was implemented within farmer groups in 144 communities in Milange, Gurue, Mopeia, and Nicoadala districts of Zambezia. Because existing community organizations are quite scarce in Mozambique, the project worked with communities to identify existing organizations, usually church groups, and then expanded or combined groups to include roughly 100 farmers on average.[3] The project ran for three growing seasons, from the 2006-2007 season to the 2008-2009 season.

The impact evaluation was designed in collaboration with the implementing agencies. Prior to the intervention, a set of communities were randomly selected into three groups: an intensive treatment group (Model 1), a less intensive treatment group (Model 2), and a control group. Randomization took place within three strat: Milange district, Gurue district, and the two southern districts (the South), to ensure that regional or language effects would not dominate any estimated impacts. The sample for this paper was collected in all three strata.

3.2 Data Collection

Important to this paper, the impact evaluation collected socioeconomic data both prior to implementation of the REU in October and November of 2006 and after the REU had been implemented for three seasons, in mid-2009. The socioeconomic surveys were designed to elicit information about household demographics and human capital, primary employment, landholdings, agricultural production of grains and legumes, detailed production information on sweet potatoes and growing practices, details on OFSP adoption, the use of agricultural inputs, sources of information and social networks, food consumption and expenditures, food consumed away from home and consumption habits, non-food consumption and expenditures, assets and information about the house, livestock, and shocks. In specific sections that were not asked in each survey, we asked the mother and the father of the reference child about their knowledge of child feeding practices, vitamin A and its sources, and the sources of news and information they use. The 2009 survey returned to exactly the same households as were interviewed in 2006, so we can match information about the individuals participating in the experi-

[3] More details on the project and site selection are available in de Brauw et al. (2010).

ment and about the household prior to the intervention with data from the risk perception experiment detailed below. We report descriptive summary statisics for our sample of farmers in Table 2.

3.3 The Risk Perception Experiment

Following Holt and Laury (2002), we designed a hypothetical experiment to elicit the attitudes of the respondents towards uncertainty specifically related to sweet potato production. A subsample of 439 households was randomly selected from the overall sample to participate in this experiment. Whenever possible, we tried to perform the experiment on both the household head and the spouse. For 243 households, two respondents were available for the interview; in all of these cases, respondents were separated to avoid one influencing the other's responses. In all other cases, either a spouse did not exist or the spouse was not present. Overall, a total of 682 respondents participated in the experiment and made choices over a menu of ordered lotteries. The setup of the experiment was such that the respondent had to choose between two varieties of sweet potatoes. One of these varieties would yield a higher output under good rainfall conditions, but a lower output under bad rainfall conditions. The respondent had to make 10 choices between these two varieties (labeled variety A and variety B) under 10 different scenarios were the probability of experimenting good rainfall conditions was gradually increased from 10% to 100%. We include the protocol for the experiment, translated into English, in the Appendix.

We initially describe the payoff matrix of the experiment (Table 3). For each line in the table, the respondent was asked to choose between variety A, a less risky variety of sweet potato, and variety B, a more risky variety. The net expected value of each choice task (not shown to the respondent) is computed as

$$E[A] - E[B] = \sum_{s=1}^{2} P(A_s) A_s - \sum_{s=1}^{2} P(B_s) B_s$$

where for each variety (A or B), $s = 1$ indicates the more favourable state of nature, good rainfall, and $s = 2$ indicates the less favourable scenario, poor rainfall and therefore lower sweet potato yields.

We next examine response patterns by gender (Table 4). The majority of respondents (86 percent) began the experiment by choosing the safer variety (A) under unfavourable rainfall scenarios, and then shifted to the more risky variety (B) as the probability of experiencing good rainfall increased. A minority of respondents (10 percent) chose the safe variety throughout all rainfall scenarios, even when presented with certainty of good rainfall. Fewer respondents chose the risky variety from the begining to the end (4 percent), while only one respondent chose to change her preferred variety more than once. As a result, it is clear that almost all respondents understood the experiment quite well.

We next compare the average choices by respondents with the risk neutral choices (Figure 2), by reporting the proportion of respondents that chose the safer variety, variety A, by the probability of experiencing good rainfall in the experiment. We note that the proportion of risky variety choices increases monotonically as the probability of experiencing good rainfall increases. However, it does so at a substantially slower rate than would be expected if all respondents were risk neutral. Therefore, we can conclude that at least with respect to sweet potato varieties, the average farmer in our sample is risk averse.

Although we can conclude that on average our sample is risk averse, we have not yet characterized preferences theoretically. We present a standard conceptual framework about choice under uncertainty in the next section. The standard framework will be the basis of our empirical analysis of risk attitudes.

4 Methodology and Results

4.1 Methodology

4.1.1 Conceptual Framework

We assume that utility $U\left(\sum_j \omega(p_j)\, x_j\right) = \sum_j \omega(p_j)\, U(x_j)$ is formed over risky lottery outcomes x_j, $j \in \{1,2\}$, weighted by their subjective probability of occurence $\omega(p_j)$ with $p_j \geq 0$ and $\sum \omega(p_j) = 1$. In this paper, the lotteries are related to choices of sweet potato varieties with different yields under alternative rainfall scenarios. Therefore, we restrict our attention to the gain domain; i.e. $x_j > 0$.

Under Expected Utility Theory (EUT) (Bernoulli (1738), von Neumann and Morgenstern (1944)), the subjective probabilities are identical to the objective probabilities, and the probability weighting function is thus defined by $\omega(p_j) = p_j$. In this case, the most commonly adopted measures of risk version are given by the coefficient of absolute risk aversion $ARA(x) = -\frac{U''(x)}{U'(x)}$, or by the coefficient of relative risk aversion $RRA(x) = xARA(x)$ (Pratt (1964) and Arrow (1965)).

Kahneman and Tversky (1979) and Tversky and Kahneman (1992) have proposed a Cumulative Prospect Theory framework (CPT) which is an alternative conceptualization of choice under uncertainty and which can be seen as a generalization of EUT. The two main differences between these approaches are that (1) CPT allows the probability weighting function $\omega(p)$ to be non-linear in its argument, and (2) utility formed over losses can differ from utility formed over gains. Under this framework, the extent to which agents are averse to risk is not only captured by some measure of the curvature of the utility function (such as $ARA\,(x)$ or $RRA\,(x)$), but also by the non-linearity of the probability weighting function. In this paper, we will consider both theoretical approaches. Since our experiments were conducted over positive lotteries only however, we are actually considering a restricted version of CPT[4].

In this paper, we assess the extent to which the choices made by the respondents are consistent with EUT by testing whether or not the probability weighting function is linear. We also look at different nested specifications of the valuation function $U\,(.)$, and this allows us to determine the shape of risk preferences which is more consistent with the data.

4.1.2 Utility Functions

Power Risk Aversion Utility We start by considering a general parameterization of the utility function which allows $RRA\,(x)$ to be either decreasing, increasing, or constant. A parcimonious specification allowing such degree of generality is proposed by Xie (2000) with the "Power Risk Aversion" utility function (PRA). The PRA valuation function is given by

$$U^{PRA}\,(x) = \frac{1}{\gamma}\left\{1 - exp\left(-\gamma\left(\frac{x^{1-\sigma}-1}{1-\sigma}\right)\right)\right\} \tag{1}$$

The coefficient of absolute risk aversion is now non-increasing in x and given by

$$ARA^{PRA}\,(x) = \frac{\sigma}{x} + \frac{\gamma}{x^{\sigma}} \tag{2}$$

while the coefficient of relative risk aversion can be writen as

$$RRA^{PRA}\,(x) = \sigma + \gamma x^{1-\sigma} \tag{3}$$

Constant Relative Risk Aversion Utility When $\gamma = 0$, the PRA reduces to the constant relative risk aversion (CRRA) utility function which is the most commonly assumed specification in studies of

[4] This is similar to Harrison et al. (2010).

risk aversion. It can be written as:

$$U^{CRRA}(x) = \frac{x^{1-\sigma} - 1}{1-\sigma} \tag{4}$$

Under this parameterization, the coefficient of relative risk aversion is equal to σ, and the coefficient of absolute risk aversion is assumed to be decreasing ($ARA^{CRRA}(x) = \sigma/x$).

4.1.3 Regression model

We assume that farmers in our sample choose the sweet potato varieties that deliver the highest utility, in expected terms, under each rainfall scenario. This setup is similar to a random utility model where U_A^* and U_B^* are unobserved single period utility levels associated with the choice of variety A and B. For any given rainfall scenario, we assume that the difference $\triangle U^* = U_A^* - U_B^*$ is a latent variable which depends on a set of explanatory variables X and on parameters $\sigma, \gamma, \mu, \beta$. More specifically, we assume that

$$\begin{aligned} U_j &= \sum_s \omega(p_{sj})\, U(y_{sj}; \sigma, \gamma) && (5) \\ \omega(p_{sj}) &= p_{sj}^{\mu} / \left[p_{sj}^{\mu} + (1 - p_{isj})^{\mu}\right]^{1/\mu} && (6) \\ \triangle U^* &= U_A^* - U_B^* = f(X; \sigma, \gamma, \mu, \beta) + \varepsilon && (7) \\ \varepsilon &\sim N(0,1) && (8) \\ y_A &= 1\left[y^* > 0\right] && (9) \end{aligned}$$

where $s = 1, 2$ denotes the bad rainfall/good rainfall states, $j = A, B$ is the index for the two varieties of sweet-potato, and $1[y^* > 0]$ is an indicator function equal to 1 if $y^* > 0$ and 0 otherwise. We include a set of explanatory X variables to control for observable heterogeneity in σ, which is the coefficient of relative risk aversion under CRRA utility. The variable y_A represents the choice of variety A, and $\sigma, \gamma, \mu, \beta$ are the parameters to be estimated. In equation (8), we assume that the error term ε is normally distributed with variance 1, and it is identically and independently distributed between respondents. However, when we estimate parameters,we allow choices to be correlated within respondents.

The likelihood function for the discrete choice model described in equations (5) through (9) is:

$$L(\sigma, \gamma, \mu, \beta | X_i, y_{Ai}) = \prod_{i=1}^{N} \left[\Phi\left(\triangle U^*\left(X_i; \sigma, \gamma, \mu, \beta\right)\right)\right]^{y_{Ai}} \left[1 - \Phi\left(\triangle U^*\left(X_i; \sigma, \gamma, \mu, \beta\right)\right)\right]^{1-y_{Ai}} \tag{10}$$

where $\Phi(.)$ is the cumulative standard normal distribution. We obtain estimates of the parameters by maximizing the logarithm of equation (10).

4.1.4 Finite Mixture Model

Following Harrison et al. (2010), we also estimate a mixture model where we allow both EUT and CPT to explain observed choices under uncertainty by Mozambican farmers. The likelihood function for this model is given by

$$\begin{aligned} L(\sigma, \gamma, \mu, \beta, \pi | X_i, y_{Ai}) \quad = \quad & \prod_{i=1}^{N} \pi \left[\Phi\left(\triangle U^*_{EUT}\left(X_i; \sigma, \gamma, \mu, \beta\right)\right)\right]^{y_{Ai}} \\ & \times (1-\pi) \left[1 - \Phi\left(\triangle U^*_{CPT}\left(X_i; \sigma, \gamma, \mu, \beta\right)\right)\right]^{1-y_{Ai}} \end{aligned} \tag{11}$$

where π is the parameter determining the proportion of respondents behaving according to EUT ($\mu = 1$).

4.2 Results

4.2.1 Homogenous Preferences

We want to learn about which form of risk preferences best characterize the preferences of farmers in our sample, with respect to the two hypothetical varieties of sweet potatoes posed to them. Since CPT is a generalization of EUT over the gain domain, and since the CRRA form is a special case of the PRA utility function, all the specifications considered here are nested within the PRA utility function under the CPT framework.[5]

We begin by estimating the model described by (5) through (9) (Table 4). We intially estimate a general model, in which the parameters are common across respondents (column 1). The two parameters of the PRA utility function (1) are positive and significantly different from zero: $\hat{\sigma} = 0.33$

[5] In our specification, (6) implies that the valuation function is consistent with EUT only if $\mu = 1$.

and $\hat{\gamma} = 0.16$. Recall that the parameter γ represents the difference between the PRA and the CRRA; if $\gamma = 0$, then PRA preferences collapse to CRRA preferences. As $\hat{\gamma} \neq 0$, we can reject the null that preferences follow the CRRA specification, in favor of PRA preferences.

Constant relative risk aversion is a convenient assumption to impose because of the simplicity of the implied utility function. Under CRRA utility, relative risk aversion (and the curvature of the utility function) is summarized in only one parameter (σ). Under PRA utility however, the coefficient of relative risk aversion is now determined by two parameters, σ and γ, each of which influence the curvature of the utility function. We depict the relative influence of these two parameters on the shape of the utility function in Figure 2, by plotting the utility function for different values of σ and γ at estimated parameter values. With this set of parameter values, we observe that absolute risk aversion (2) is decreasing, but relative risk aversion (3) is increasing. We demonstrate this point in Figure 4, which illustrate that relative risk aversion is increasing for all values of X at the estimates parameter values.

A further parameter of interest is μ, which describes the shape of the relationship between the objective probabilities of the two states A and B, and the subjective probabilities assigned to those states by the respondent (equation 6). Note that EUT is consistent with $\mu = 1$, and equation (6) collapses to $\omega(p) = p$ if $\mu = 1$. Therefore, in this framework we can test the null hypothesis that $\mu = 1$ against the alternative that it is not ($\mu \neq 1$), which is equivalent to testing the null hypothesis that preferences behave as in EUT, against the alternative that preferences follow the CPT.

We report the $F - statistic$ of this hypothesis test in Table 4, and in all specifications we strongly reject EUT in favor of CPT. Since we find that $\hat{\mu} > 1$ under each specification, the respondents' probability weighting function is S-shaped. Respondents tend, therefore, to underweight small probabilities relative to the objective, and overweight larger probabilities. In the left-hand graph depicted in Figure 4, we plot the non-linear probability weighting function against the identity function which is imposed if we assume EUT. Note that only around a probability of the good rainfall state of 0.6 do farmers begin to overweight subjective probabilities; before that point they underweight objective probabilities.

We also model σ as a function of observable characteristics about respondents (Table 4, columns 2-3 and 5-6). We focus on measuring σ as a function of observables rather than γ, specifically so that we can compare the effect of observables on the curvature both the CRRA and PRA utility functions. We include variables generated from the socioeconomic surveys, including the age, gender, and education level of the respondent; total household expenditures, and previous household experience with growing sweet potatoes at the baseline. Moreover, we include variables capturing self-reported shocks to income in the and to asset holdings as well as an indicator of whether a member of the household is a wage earner. Finally, we include village-dummy variables to account for community-specific characteristics like agro-ecological conditions for example, and we control for enumerator effects during the interview.

For PRA preferences, the conditional estimates are reported in columns 2 and 3 of Table 4[6]. We find that only a few variables have a statistically significant influence on risk aversion. For example, the estimated coefficient among younger respondents (less than 30 years old) suggests that they are more risk averse than than respondents aged 30 to 50.On the other hand, we find that gender does not significantly influence risk aversion. Moreover, we find that respondents located in the South of the province are also more averse to risks related to sweet potato yields. This finding could be related to the fact that there is a short second growing season in the South, and farmers there prefer to plant sweet potato or other crops after they have harvested the primary rice crop. Respondents who experienced income shocks in 2009 are also slightly more risk averse, but shocks to asset holdings on the other hand do not matter much. The effect of income shocks vanishes once we include control for village and enumerator dummies in column 3.[7]After taking into account village and enumerator effects, higher education and higher level of food expenditures are also associated with lower risk aversion. Finally, it is important to note that including control variables to condition σ does not alter the main results. We still reject CRRA in favor of PRA ($\hat{\gamma} \neq 0$), and we still reject EUT in favor of CPT ($\hat{\mu} \neq 1$).

An open question is how badly one predicts risk preferences if using the common assumption of CRRA preferences. To measure this, we predicted relative risk aversion under both PRA and CRRA, and then assigned the predictions into deciles, with relative risk aversion increasing by deciles. We then plotted farmers by PRA decile on the y-axis and by CRRA decile on the X-axis in a bubble plot, where the size of the bubble represents the number of farmers falling into each decile cell (Figure 7). If PRA and CRRA preferences ranked farmers similarly, we would find 10 large bubbles along the 45 degree line. Instead, we find significant numbers of farmers who fall into different deciles under PRA preferences than under CRRA preferences, as evidenced by the size and number of bubbles off of the 45 degree line. We find that the CRRA assumption does well at predicting the most risk averse

[6]Information on total food expenditure was not collected for a small part of our sample, so the total number of observations for the conditional analysis is 5700 instead of 6820

[7]17 variables for village effects and 9 for enumerator effects were included, many of which appeared with significant coefficients.

farmers, but particularly poorly at predicting the least risk averse farmers. In fact, many of the farmers characterized as least risk averse under CRRA end up in the second decile under PRA, and the least risk averse farmers under PRA are found in every decile up to the 7th under CRRA preferences. In general, the figure indicates that if we had made the CRRA assumption, the relative ranking of risk aversion among farmers in our sample would be dramatically different than under PRA preferences.

4.2.2 Preference Heterogeneity

In the previous subsection, we have imposed a single utility framework on the data (either EUT or CPT). We next relax this assumption by allowing a proportion of farmers to respond according to EUT, and the remaining farmers to respond according to CPT. Harrison and Rutström (2009) and Harrison et al. (2010) have recently shown that preference heterogeneity is potentially a relevant factor to account for in experimental data related to risk attitudes. Therefore, we base the next set of resutls on the likelihood function in (11), which is similar in spirit to a regime switching model.

Among our sample, neither EUT nor CPT fully explains observed attitudes towards risk related to sweet potato yields in Zambezia (Table 5). We find that the estimated parameter on the share of farmers behaving according to EUT is significantly different from zero (28 percent). However, the percentage is not large; the majority of farmers still behave according to CPT according to the finite-mixture model (72 percent).

Interestingly, by relaxing the assumption made on homogenous preferences, the way CPT farmers discount objective probabilities changes. The estimated parameter characterizing the probability weighting function is now $\hat{\mu} = 0.57$, which implies that CPT farmers actually over-weight small probabilities, and under-weight larger probabilities. We show this new characterization in the right panel of Figure 4. In fact, this finding is more consistent with typical weighting functions from CPT, so estimating risk preferences in a mixture model appears to be more realistic.

5 Conclusion

In this paper, we have used experimental data that was collected in combination with data from an impact evaluation of an agricultural biofortification intervention, using OFSP as the delivery mechanism for additional vitamin A. As the intervention involved growing sweet potatoes, we framed our experiment around growing sweet potatoes. We conducted the experiment among a subsample of farm households included in the final impact evaluation survey, and the experiment included 682 respondents.

When we estimated risk preferences in a general form that nested more restrictive forms of preferences typically used in the literature, we found that we could strongly reject the hypotheses that farmers follow CRRA preferences. We also found that averaging across the whole sample, we could reject the null hypothesis that preferences follow EUT, accepting the alternative hypothesis that preferences follow the CPT. We also estimated the proportion of farmers whose preferences follow EUT by estimating a mixture model; the point estimate was 0.278, suggesting that for about one-fourth of farmers, the objective probabilities of states coincide with their subjective probabilities.

We finally demonstrate how the assumptions of CRRA preferences affect the characterization of risk preferences. Relative to PRA preferences, CRRA preferences do a pretty good job at describing the preferences of more risk averse farmers, but a poor job of describing the risk preferences of less risk averse farmers. Therefore, our results suggest that making the CRRA assumption is not without cost, and at worst could badly mischaracterize risk preferences. However, it could be that our results are somewhat reflective of the narrow definition of risk used in the experiment described in this paper, specifically that the risk is related to sweet potato production. It would be worthwhile repeating this experiment in the field with a broader definition of the risk faced by respondents, to observe whether the results were consistent with these findings.

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Appendix

Q. RISK PERCEPTIONS MODULE

Enumerator: Read the introduction to all participants in a group, but take each respondent aside to ask them individually what their choices are. Please try to ensure that respondents do not observe others' responses.

Introduction: "Scientists are working to find varieties of sweetpotato that are better than what you are used to at present. The following choices are hypothetical, but can help provide some input to their research. Assume there are two varieties being planned that have different yield potential depending on how much it rains. Below you will make 10 choices between the two varieties, Variety A and Variety B, under different situations about possible rainfall. When making your choices, assume you have access to one acre of land on which to plant one of the new varieties. Both varieties would fetch the same price in the market, so they only differ in the possible yields. For each of the following 10 cases, please tell us whether you would prefer variety A or variety B in each case. All yields are measured in units of 50 kg bags. Once again, the two varieties only differ in how they perform under different rainfall conditions. Variety B performs extremely well under very good rainfall conditions, yielding 95 bags. But it does not perform that well if rainfall is moderate; with moderate rainfall Variety B yields only 5 bags. On the other hand, Variety A gives more consistent yields: if there is very good rainfall, it yields 50 bags, and if there is moderate rainfall it will yield 40 bags. So Variety B is more risky than Variety A. Again, if there is very good rainfall, Variety B will yield 95 bags while Variety A will yield 50 bags. If there is moderate rainfall, Variety B will yield only 5 bags, while Variety A will yield 40 bags. Variety B is good as long as rainfall is good, but it is risky. Variety A gives more moderate yields irrespective of the rain received. Do you understand? . . .

We will ask you now, individually, to please tell us which variety you would prefer under different situations where the chance of very good rainfall is increasing from 10% to 100%. So we will ask you: if the chance of very good rainfall is 1 out of 10 and that of moderate rainfall is 9 out of 10, which variety would you choose? And we will keep changing the chance of very good rainfall. So then we will ask if you if the chance of good rainfall is now two out of ten and the chance of moderate rainfall is 8 of 10, what would you choose? And so on. . . we will ask you ten questions changing the chance of good rainfall from 1 out of 10 to 10 out of 10, and ask your preference in each case. These are all hypothetical choices, and there are no right or wrong answers. One way to understand what is meant by the chance of very good rainfall is to think of weather forecasts. When the weather forecasters make a prediction, they are not certain of the prediction and say that there is such and such percent chance of rain. This is what we mean by chance of good and moderate rainfall. For example, over the next ten year period, the chance of very good rainfall being 2 out 10 means over the next ten year period there is likely to be very good rainfall in 2 years. And so on. . . ..

Please note once again that both varieties would command the same price in the market."

Enumerator: Please ensure that the respondent understands what is meant by asking them to repeat back to you the structure of the choices. Please don't translate this to say "there will be good/moderate rainfall;" please use "likely to be". You may ask one or two questions to make sure they've understood. Writing out the yields for the two varieties (on the ground) may be useful. You may want to use sticks to represent five bags and thus demonstrate the 95, 5, 50 and 40 bags for those who are not literate. Once you are convinced they've understood the set up, you can proceed to the choices. A common misunderstanding is to interpret higher chance of rain as higher quantity of rain—this is not what is meant here. You can also ask them when they switch, why they switched.

Key messages: There will be 10 choices. One variety is risky, the other is stable—as demonstrated by the yields written out. Ask the respondent to explain the question back to you and make sure s/he understands. Then start asking the questions and again, please ensure that the two respondents from the household do not observe each other's answers.

Tables

Table 1: Risk Preferences, Perception Framework and Utility Functions

Study	Country	Lottery Type	Perception Framework	Utility Function
Binswanger (1981)	India	Hypothetical and real	EUT	CRRA
Holt and Laury (2002)	USA	Hypothetical and real	EUT	CRRA and Power
Miyata (2003)	Indonesia	Real	EUT	CRRA
Wik et al. (2004)	Zambia	Real	EUT	CRRA
Mosley and Verschoor (2005)	Ethiopia, India, Uganda	Real and hypothetical	EUT	CRRA
Liu (2008)	China	Real	EUT and CPT*	CRRA
Hill (2009)	Uganda	Hypothetical	EUT	CRRA
Yesuf and Bluffstone (2009)	Ethiopia	Real	EUT	CRRA
Tanaka et al. (2010)	Vietnam	Real	EUT and CPT*	CRRA
Harrison et al. (2010)	Ethiopia, India, Uganda	Real	EUT and CPT	CRRA

* In these studies, CPT is evaluated over the full range of gains and losses.

Table 2: Summary Statistics

	Sample Mean	Std. Dev.
Gender (% male respondents)	38.8	48.8
% of respondents below 30	35.6	47.9
% of respondents above 50	4.5	20.8
% of respondents in Milange	57.6	49.4
% respondents in Gurue	23.9	42.7
% responents in South	18.5	18.5
% who can speak Portuguese	49.6	50.0
% with wage earner in household	24.5	43.0
% with experience in sweet potato ($>$ 5 years)	87.7	32.9
Total food expenditures per capita per day (USD)	.27	.13
% Reporting severe income shock	6.3	24.3
% Reporting severe asset shock	3.3	18.0
# enumerators	10	-

Table 3: Payoff Matrix

$P(A_1)$	A_1	$P(A_2)$	A_2	$P(B_1)$	B_1	$P(B_2)$	B_2	$E[A]$	$E[B]$	$E[A]-E[B]$
0.1	10	0.9	8	0.1	20	0.9	2	8.2	3.8	4.4
0.2	10	0.8	8	0.2	20	0.8	2	8.4	5.6	2.8
0.3	10	0.7	8	0.3	20	0.7	2	8.6	7.4	1.2
0.4	10	0.6	8	0.4	20	0.6	2	8.8	9.2	−0.4
0.5	10	0.5	8	0.5	20	0.5	2	9.0	11.0	−2.0
0.6	10	0.4	8	0.6	20	0.4	2	9.2	12.8	−3.6
0.7	10	0.3	8	0.7	20	0.3	2	9.4	14.6	−5.2
0.8	10	0.2	8	0.8	20	0.2	2	9.6	16.4	−6.8
0.9	10	0.1	8	0.9	20	0.1	2	9.8	18.2	−8.4
1.0	10	0.0	8	1.0	20	0.0	2	10	20	−10

Table 4: Pattern of Responses, by Gender

$N = 682$	All	Male	Female
Stick to A (safe choice)	69	31	38
Stick to B (risky choice)	26	11	15
Shift once from A to B	587	223	364
Shift more than once	1	0	1

Table 5: Regression Results

	PRA			CRRA		
	(1)	(2)	(3)	(4)	(5)	(6)
σ	0.33^{***}	0.41^{*}	0.45^{**}	0.74^{***}	0.83^{***}	0.92^{***}
	(0.05)	(0.25)	(0.21)	(0.01)	(0.10)	(0.13)
Male		0.09	0.01		-0.05	0.03
		(0.07)	(0.06)		(0.04)	(0.04)
Age < 30		0.13^{**}	0.14^{**}		0.04	0.00
		(0.07)	(0.06)		(0.04)	(0.03)
Age > 50		0.10	0.00		-0.06	-0.11^{*}
		(0.12)	(0.07)		(0.08)	(0.06)
Gurue District		-0.16	-0.13		-0.14^{***}	-0.11^{*}
		(0.15)	(0.12)		(0.05)	(0.07)
South District		0.17^{*}	0.28^{**}		0.08	0.14^{*}
		(0.10)	(0.13)		(0.06)	(0.08)
Education (Speaks Portuguese)		-0.06	-0.55^{*}		-0.02	-0.02
		(0.05)	(0.03)		(0.02)	(0.02)
Wage in Household		-0.10	-0.09		-0.03	0.06
		(0.07)	(0.06)		(0.04)	(0.03)
Experience with Sweet-potato > 5 years		-0.04	-0.05		0.02	-0.07
		(0.08)	(0.08)		(0.06)	(0.06)
Total Food Expenditure Per Capita		-0.09	-0.13^{**}		0.03	0.03
		(0.08)	(0.05)		(0.04)	(0.03)
Severe Shock to Income		0.19	0.15		0.09	0.06
		(0.13)	(0.10)		(0.08)	(0.07)
Severe Shock to Assets		0.11	-0.07		0.07	0.10
		(0.15)	(0.10)		(0.10)	(0.12)
Village and Enumerator Dummies	No	No	Yes	No	No	Yes
μ	1.37^{***}	1.24^{***}	1.22^{***}	1.15^{***}	1.13^{***}	1.08^{***}
	(0.06)	(0.11)	(0.09)	(0.02)	(0.02)	(0.01)
$F - stat\ (H_0 : \mu = 1)$	42.3^{***}	5.20^{**}	6.30^{***}	75.1^{***}	48.44^{***}	36.0^{***}
$p - value$	(0.00)	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)
γ	0.16^{***}	0.13^{***}	0.09^{***}	–	–	–
	(0.01)	(0.03)	(0.01)			
N	6820	5700	5700	6820	5700	5700
Log-Likelihood	-2867.6	-2346.1	-2195.5	-2916.9	-2371.2	-2233.2

Maximum likelihood estimates. ***,** and * denote statistical significance level of 1%, 5% and 10% respectively.

Table 6: Regression Results, Mixture Model

	Estimate	Standard Error
Mixing Parameters		
π^{EUT}	0.278^{***}	(0.059)
π^{CPT}	0.722^{***}	(0.059)
EUT Parameters		
σ	0.000	(0.001)
γ	0.081^{***}	(0.003)
CPT Parameters		
σ	0.164	(0.356)
γ	0.308^{***}	(0.065)
μ	0.571^{**}	(0.260)
N		6820
Log-Likelihood		-2847.2

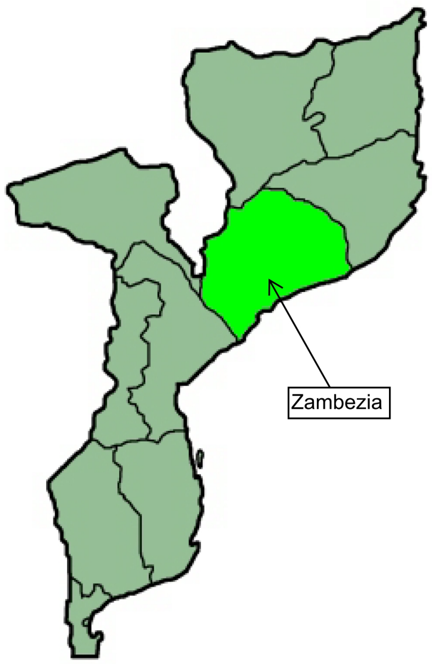
Maximum likelihood estimates.

***,** and * denote statistical significance level of 1%, 5% and 10% respectively.

Figures

Figure 1: Survey Location Map

Mozambique



Zambezia (Survey Districts in Orange)

Figure 2: Risk Experiment Responses

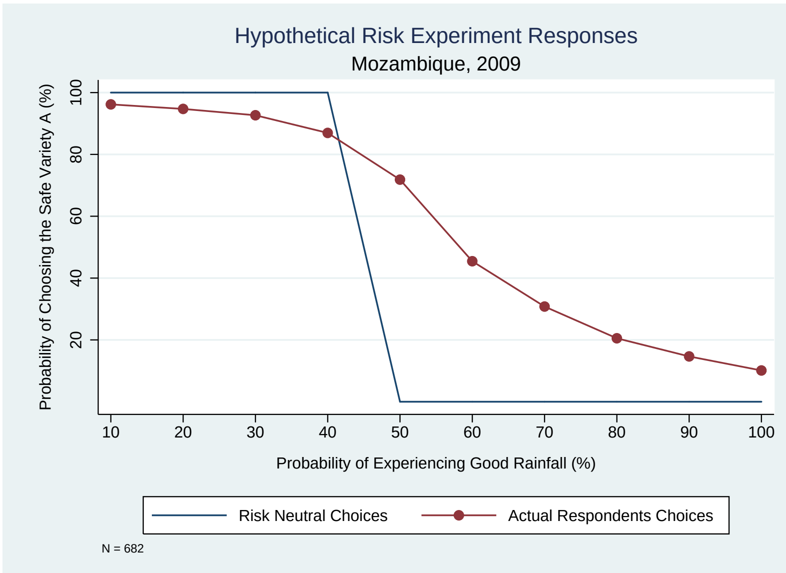


Figure 3: Power Risk Aversion Utility Function

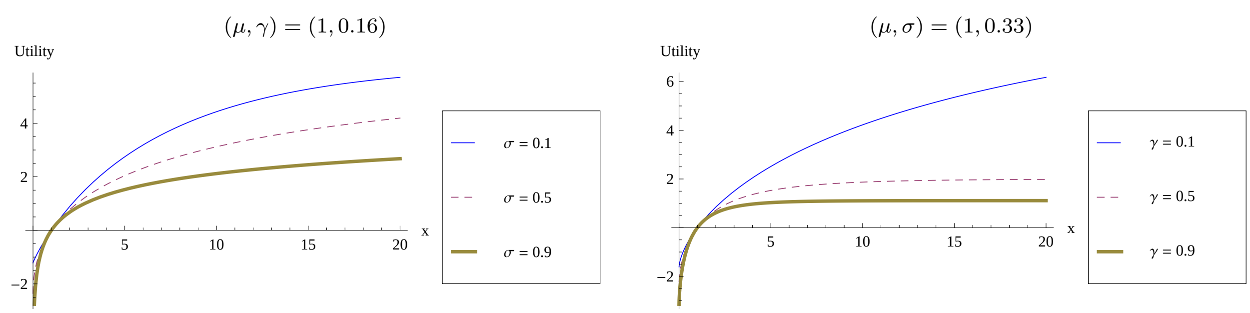


Figure 4: Absolute and Relative Risk Aversion [$(\mu, \gamma, \sigma) = (1, 0.16, 0.33)$]

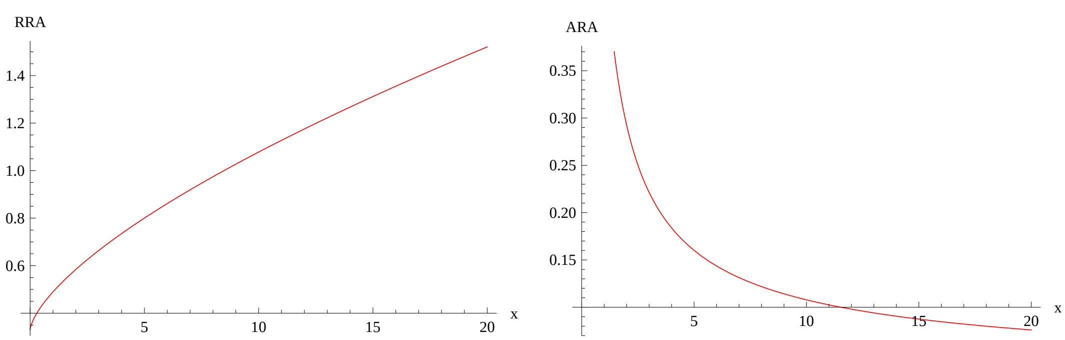


Figure 5: Weighting Funtion for the PRA Utility

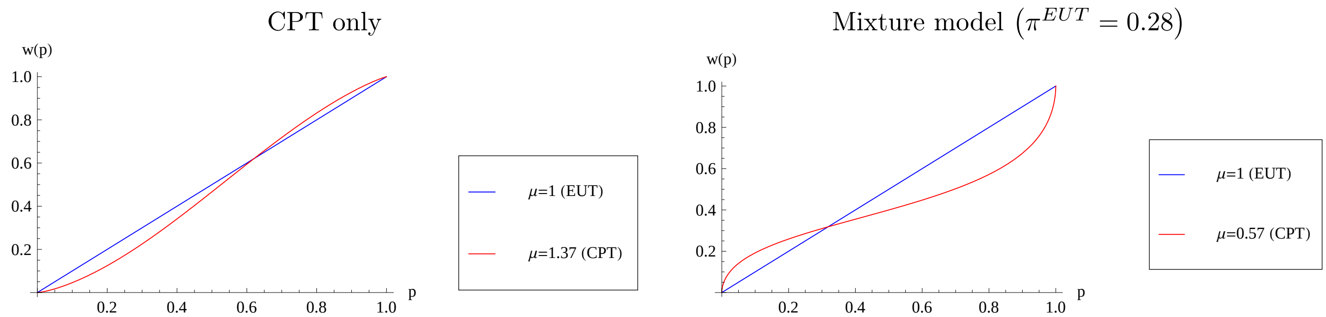


Figure 6: Estimated σ Distribution for PRA and CRRA

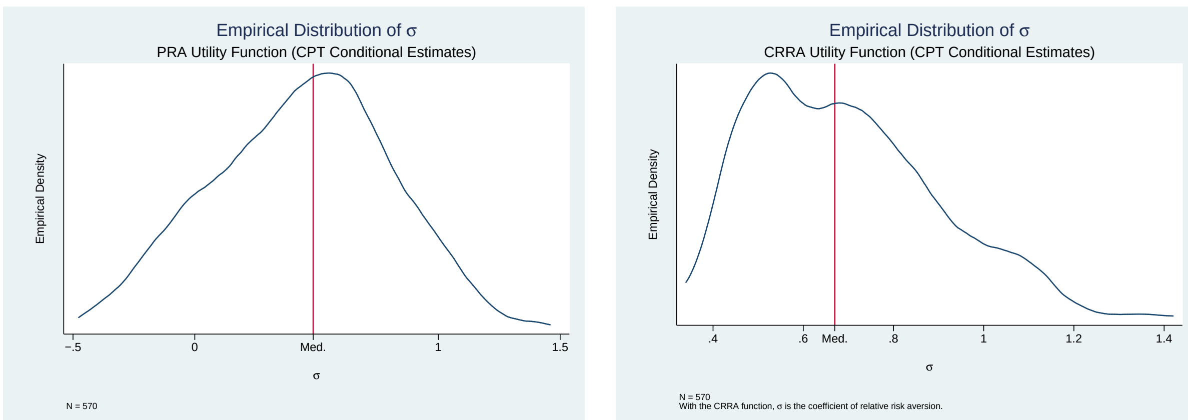


Figure 7: Bubble Plot for $RRA\,(x)$ Distribution of PRA vs CRRA