

## **SUMMARY**

The main purpose of this thesis is to analyze the ability of households in rural Mexico to insure consumption against idiosyncratic shocks. In particular, I test the full consumption insurance hypothesis using panel data from progresas.

Risk is more prevalent in low and middle income countries for two related reasons: (i) The share of agriculture in output is higher in low and middle income countries. (ii) Low and middle income countries lack well developed financial and insurance markets. This does not imply, however, that people in poor countries cannot insure against risks. The hypothesis analyzed here are: Full insurance, the probability of receiving a transfer depends on the observability of a shock and the magnitude of a transfer depends on the observability of a shock.

As a result of our study, we find evidence of partial and full insurance hypothesis. We also find that the change in household consumption commoves with aggregate village consumption. There is evidence of an increased probability to receive a transfer for observable shocks like sickness. The magnitude of a transfer increases with a change in consumption, departure of a member, and an earthquake. Finally we find that a farm laborer has a decreased probability of receiving a transfer and a decreased transfer magnitude.