Key Findings from the Paper -

Village Economic Accounts: Real and Financial Intertwined

Experiencing Thai villages as smaller versions of a national economy provides a new understanding of the dynamics of economic growth and yields fresh insights to the financial lives of villages and households.

This is the conclusion from a new study by the Consortium on Financial Systems and Poverty. In a paper that will be published in a forthcoming issue of the journal American Economic Review, economists Archawa Paweenawat of School of Economics, University of the Thai Chamber of Commerce, and Robert M. Townsend of MIT describe an analytical framework that generates financial and economic accounts for villages for use with data drawn from household surveys.

The authors used the accounts, which they created with large-scale household survey data from Thailand, to study relationships across villages in the same way that international economists analyze the economies of nations and the interactions among them.

Their preliminary findings include the following:

- Capital markets across villages are highly integrated. That is, a village does not have to rely on its own savings when investment opportunities arise.

- When incoming gifts are considered part of a village's financial resources, researchers found that these gifts could be one of the main methods that village residents use to finance their opportunities, such as growing their household businesses.

- Within villages, households were more likely to rely on informal borrowing and outright gifts to smooth the gaps between the times when they needed to make purchases and when they received their income.

- Across villages, choices were more formal: when going outside of their villages, households were more likely to use credit from a bank rather than borrow from one another and more likely to use currency. This suggests that sharing within villages to weather hard times may be far more pronounced than across-village sharing (although the authors caution that the sample size is not large enough to know for sure).

“We believe that a village typically has its own importance as an economy,” notes Townsend. “It’s more than just a random cluster of households. Each village is a geo-political entity with
its own formal and informal institutions. This study proposes viewing villages as nations in an economic sense in order to get a richer understanding of the dynamics at play. We look at production and trade as well as the macro financials, and we examine their interaction.

ABOUT THE CONSORTIUM ON FINANCIAL SYSTEMS & POVERTY
The Consortium on Financial Systems and Poverty (CFSP) is a private research organization of leading and emerging economists. Our goal is to improve the lives of the world’s poor and to reduce poverty through helping to identify, define and develop efficient financial systems. We strive to generate tangible and objective results that have meaningful lessons for policymakers, researchers and stakeholders. We are based at the University of Chicago and led by Professor Robert M. Townsend of Massachusetts Institute of Technology.

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