

Forecasting When it Matters: Evidence from Semi-Arid India

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Abstract

Decision-making under uncertainty depends not only on preferences, endowments and constraints but also on subjective probabilities. We elicit from a sample of farmers their beliefs about the timing of the onset of the monsoon, which signals the optimal time to plant. We assess the accuracy of beliefs by comparing them to historical data and find substantial heterogeneity in beliefs and accuracy. Elicited beliefs explain differences in observed behavior consistent with the predictions of a simple model in which information is costly to acquire: poorer farmers whose income is more dependent on the monsoon are more accurate.

Keywords: Information Acquisition, Expectations, Forecasting, Climate.

JEL Codes: D81, D84, O13, Q54.

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