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Cognitive Droughts:

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ABSTRACT: This paper tests whether uncertainty about future rainfall affects farmers' decision-making through cognitive load. Behavioral theories predict that rainfall risk could impose a psychological tax on farmers, leading to material consequences at all times and across all states of nature, even within decisions unrelated to consumption smoothing, and even when negative rainfall shocks do not materialize down the line. Using a novel technology to run lab experiments in the field, we combine recent rainfall shocks and survey experiments to test the effects of rainfall risk on farmers' cognition, and find that it decreases farmers' attention, memory and impulse control, and increases their susceptibility to a variety of behavioral biases. In theory, insurance could mitigate those effects by alleviating the material consequences of rainfall risk. To test this hypothesis, we randomly assign offers of an index insurance product, and find that it does not affect farmers' cognitive load. These results suggest that farmers' anxiety might be relatively difficult to alleviate.

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Insurance Against Cognitive Droughts

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