On the source of risk aversion in Indonesia using micro data 2007

1. Summary

This paper examines the determinants that affect individual's risk aversion in Indonesia. Using data from individual-level surveys on risk aversion and basing expected utility theories, the author calculates different measures of risk aversion of households. He/she shows that suffering from recent natural disasters does not cause significant effects on risk preferences. However, wealth and father education has negative relationship with risk aversion and impatient people seem more risk loving.

2. General comments

The main contribution of the paper is to have “a broader look on any possible determinants of risk preferences...in both rural and urban area in Indonesia”. Although this topic seems to be interesting, it has been investigated substantially by many cross and within country studies. Therefore, the paper may contribute marginally to the existing literature.

3. Specific comments

The introduction could be restructured to guide the audience better. The introduction should highlight the contributions of paper compared to those of similar studies in Indonesia and other countries. In addition, the empirical strategy should be described in greater detail.

The author may need to compare the distribution of risk aversion parameters with those of other experimental studies, for example Cameron and Shah, to show how different they are. Suppose there is an exaggeration of respondents on their risk aversion, as claimed in page 4, whether the author has any sensitivity tests to see how severe these problems?

The author mentioned some potential biases in his estimation. However, he/she did not show adequate evidence of how to overcome these. Therefore, the audience does not know how reliable these results are. For example, it is not clear how the author could correct the endogeneity of weather and education by running quintile estimation.

4. Minor comments

The title: “On the source of risk aversion...” may be misleading and does not reflect what the paper did. The explanatory variables mainly show their short-term effects on risk aversion rather than persistent effects, which may be transmitted through generations.