

## **Investment, Insurance and Weather Shocks: Evidence from a Lab Experiment in Cambodia**

### **Abstract**

This paper presents the results of a lab experiment conducted in Cambodia in which subjects were asked to choose whether or not to buy an insurance and whether or not to invest in risky but profitable inputs in presence of weather shocks. The protocol allows to analyze the extent to which investment decisions change under risk or ambiguity and for different initial wealth. The findings indicate that, while the presence of a market for insurance increases investment, this effect is significant only for the rich and only under risk. Moreover, the provision of an insurance grant in a complete market discourages investment. Furthermore, under ambiguity, people rely on heuristic tools before deciding how much to invest. All these aspects, taken together, shed new light on the effects of policies aimed at encouraging the adoption of Index-based insurance against weather shocks in developing countries.

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