Credit Constraint and Non-separable Behavior of Rural Households — Evidence from China

Jianmei Zhao
Jun Zhang

China Academy of Public Finance & Public Policy
Central University of Finance and Economics
39 South Xueyuan Road, Haidian District
Beijing, P. R. China, 100081
(86-10)-6228-9289 (O)
(86-10)-6228-8535 (F)
jzhao4@gmail.com


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Central University of Finance and Economics, Beijing, China 100081

Rural households are both producers and consumers. Under perfect markets, farm households arrange their production and consumption independently as both profit-maximizing producer and utility-maximizing consumer, we say that separability is hold.

Previous studies test for the separability by centering on the imperfect labor market. However, non-separability could result from any market failure. With the development of rural factor markets, rural capital market imperfections have outweighed the labor market inefficiency.

Exploring the separability of rural households, embedded in the capital market failure, and from the perspective of farm production variable inputs would be a new attempt.

RESEARCH QUESTIONS

Test whether farm consumption and production can be separable, under imperfect capital market?

1) Derive new conceptual framework to address the separability issue in the context of imperfect capital market; 2) Test the separability hypothesis by examining effects on farm household consumption from their production inputs, for both credit constrained and unconstrained farm families in rural China.

IMPLICATION

1) Imperfect capital market can be another channel to test separable decisions on farm production and their living consumption. Imperfect capital market results non-separable behavior for credit constrained farms, the separability is held for unconstrained farms.

2) Policy advisors should be cautious when evaluating the potential impact of their policies relying on the assumption of efficient capital markets.

Theoretical Framework

To conceptualize the impact of credit constraint on farm household consumption, we draw from the well-developed theoretical literature on neoclassical producer-consumer models (Singh and Squire et al., 1986; Petrick, 2004; Briggeman and Towe et al., 2009), and derive that when farm inputs, Farm consumption could ↓ or → or ↓.

Credit constraints include: quantity rationing, transaction cost rationing, and risk rationing.

Econometric Estimation with Switching Regression Model

The necessary and luxury consumption relationship with farm production inputs; The necessary consumption: separability is hold for both credit constrained and unconstrained farms.

ECONOMETRIC RESULTS

Necessary and luxury consumption

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CENTRAL CONCLUSION

Necessary and luxury consumption

The necessary expenditure also has a U-shaped relationship with farm production inputs; The necessary consumption: separability is hold for both credit constrained and unconstrained farms.

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REFERENCES


