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# **Discussion of Rosenzweig and Udry (2013), “Forecasting Profitability”**

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# Rosenzweig and Udry (2013)

- An innovative paper with important new findings and implications
- Attractive features:
  - Important question
  - Creative use of existing and newly-released data
  - Credible strategy for identification of profit function
  - Sensible use of results in simulation analyses that explore nuanced set of implications
  - Real policy implications

# New findings

- Forecasts matter (a lot) for farmer investments
- Skill of forecasts varies, and more-skilled forecasts affect investments more
- Impact of investments depends on rainfall realization (*sobering!*)
- Improved forecast skill improves profits
- Identifies a new missing market: *forecast insurance*
  - Insurance for weather departures from forecast

# Questions, suggestions

- How does improvement in forecast skill come about? Are major improvements feasible or likely?
  - Might matter because existing forecasts are simply better for some areas and not others
- Why does forecast skill vary across places? Unclear from paper.
- Please provide more detail on first stage of IV
  - Always useful to see whether the coefficient estimates and magnitudes are “sensible”
  - Also: F-statistics appear low to me, so worry about weak instruments
    - See Stock and Yogo (2005) thresholds to bound TSLS bias
- Explore interaction with credit constraints
  - Is investment response larger in more financially-developed areas? Would expect higher investment levels, and also perhaps more responsiveness.