

# Trust, trustworthiness, and risk in rural Paraguay

Laura Schechter

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**Abstract** This dissertation looks at the relationship between trust, trustworthiness, and risk aversion in a rural Paraguayan setting. The first chapter of this dissertation looks at theft between farmers. Rural areas of developing countries often lack effective legal enforcement. However, villagers who know each other well and interact repeatedly may use implicit contracts to minimize crime. I construct a dynamic limited-commitment model in which a thief cannot credibly commit to forego stealing from his fellow villagers but may be induced to limit his stealing by the promise of future gifts from his potential victim. Using a unique survey from rural Paraguay which combines traditional data on production with information on theft, gifts, and trust, as well as with experiments measuring trust and trustworthiness, I test whether the data is consistent with predictions from the dynamic model. The results provide evidence that, in contrast with predictions from a one-period model with an anonymous thief, farmers do implicitly contract with one another to limit theft. Farmers who have more close family members in their village give fewer gifts, and farmers with plots which are more difficult to steal from give fewer gifts, experience less theft, and trust more. Gift-giving increases when trust is lower and the threat of theft is greater, turning the social capital literature on its head.

The second chapter of this dissertation looks at a different linkage between trust, trustworthiness, and risk. Trusting behavior in general and play in the traditional trust experiment specifically depend both on trust beliefs and on levels of risk aversion. I ran two experiments with a diverse set of subjects in fifteen villages of rural Paraguay, the traditional trust experiment and a new experiment measuring only risk aversion. I find that risk attitudes are highly predictive of play in the trust game. In addition, omitting risk aversion as a regressor in trust regressions significantly changes the coefficients of important explanatory variables such as gender and wealth. The chair of this dissertation committee was Ethan Ligon and the other committee members were George Akerlof and Elisabeth Sadoulet.

**Keywords** Trust · Risk aversion · Field experiment · Paraguay · Gender · Theft · Crime · Trustworthiness · Limited commitment · Gift-giving · Informal contracts

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Laura Schechter (✉)  
Agricultural & Applied Economics, UW Madison  
e-mail: lschechter@wisc.edu