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Kyle Emerick¹

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Abstract

How do shocks to agricultural productivity affect the allocation of labor across sectors of the economy? To answer this, I use data from rural India to show that exogenous increases in agricultural productivity — caused by abnormally high levels of precipitation — lead to an increase in the labor share of the non-agricultural sector. I further show that the non-tradable sector expands significantly when agricultural output increases. This evidence is consistent with increasing agricultural output causing increased demand for local non-tradables, which in turn increases the non-agricultural labor share.

JEL codes: Q10, O13, J43

Keywords: Agricultural productivity, labor allocation

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