

## **Abstract**

What drives income diversification among rural households in developing countries? A large literature has examined whether household income diversification is a means of survival or a means of accumulation, which has so far remained inconclusive. This paper attempts to evaluate which explanation of household income diversification – diversification as survival or diversification as accumulation – stands up to empirical scrutiny. We use household panel data from Tanzania of approximately 800 households for four years and use fixed and random effects models to sweep out unobserved households' attitudes to risk that may be correlated with household income diversification behaviour. We also use instrumental variable methods to address the possibility of reverse causality and that the household's income status may be endogenous to its diversification behaviour. Our results suggest that the 'diversification as accumulation' motive of household income diversification seems to have stronger empirical validity in the Tanzanian context.

**Keywords:** Income Diversification; Tanzania, Panel Data.

**JEL Classification:** D12, R20, O5.

**Ralitza Dimova** is Lecturer in Economics at Brunel University, London.

**Kunal Sen** is Professor of Development Economics and Policy at the Institute for Development Policy and Management, University of Manchester.