This thesis explores three issues which are essential for economic development: poverty, risk and insurance. Risk, which is one of the causes and aspects of poverty, is the main issue investigated. The analyses are from a micro point of view and in the setting of rural areas in developing countries. It is found in the thesis that rural households in Ethiopia are not able to cope with risk through their own risk-sharing networks, and risk does not only bring volatility in consumption but also lowers growth on average and therefore has a persistent effect on household welfare. These findings support the implementation of one of the risk reduction strategies – insurance – in rural areas of developing countries. The thesis also investigates an issue in poverty measurement and explores several methods to improve the measurement of poverty at disaggregated levels.