# Towns and Rural Land Inequality in India

Using the universe of land records from a large state in India, we document three empirical facts on rural land holding inequality (gini index) at the village-level: 1) inequality is higher close to urban areas and decreases with distance, 2) this is due to fewer medium sized farms (i.e. more small and large farms near urban areas), and 3) the distance to urban area-land holding inequality relationship depends positively on the size of the urban area. A simple model where individual farmers face financial frictions, a U-shaped production function in land size and farm productivity, and sig- nificant opportunity cost of farm production, explains these patterns. In this set up, farmers choose between continuing or exiting farm production in each period. Own- ers of medium sized farms near urban areas find it profitable to exit production on such farms. Financial and land market frictions are key factors behind small farms remaining small.