

## Accepted Manuscript

Title: Macroeconomic effects of foreign aid and remittances:  
Implications for aid effectiveness studies

Author: Kurt Annen Michael Batu Stephen Kosempel

PII: S0161-8938(16)30078-3  
DOI: <http://dx.doi.org/doi:10.1016/j.jpolmod.2016.10.003>  
Reference: JPO 6316

To appear in: *Journal of Policy Modeling*

Received date: 30-1-2016  
Revised date: 7-3-2016  
Accepted date: 26-9-2016

Please cite this article as: Annen, Kurt., Batu, Michael., & Kosempel, Stephen., Macroeconomic effects of foreign aid and remittances: Implications for aid effectiveness studies. *Journal of Policy Modeling* <http://dx.doi.org/10.1016/j.jpolmod.2016.10.003>

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.



# Macroeconomic effects of foreign aid and remittances: Implications for aid effectiveness studies

Kurt Annen <sup>a</sup>, Michael Batu <sup>b\*</sup>, Stephen Kosempel <sup>a</sup>

<sup>a</sup> *Department of Economics & Finance, University of Guelph, Guelph, ON N1G 2W1, Canada*

<sup>b</sup> *Department of Economics, University of Windsor, Windsor, ON N9B 3P4, Canada*

\*Corresponding author. Tel.: +1-519-253-3000 Ext. 2380

Email addresses: [kannen@uoguelph.ca](mailto:kannen@uoguelph.ca) (Kurt Annen), [michael.batu@uwindsor.ca](mailto:michael.batu@uwindsor.ca) (Michael Batu), [kosempel@uoguelph.ca](mailto:kosempel@uoguelph.ca) (Stephen Kosempel)

## Abstract

In this paper we quantify the impact of wealth transfers such as remittances and foreign aid using a DSGE-RBC model. We calibrate and simulate the model using data from 85 recipient countries. We show that positive wealth transfer shocks have a lagged positive response on output provided that persistence is sufficiently low, but these effects are small in comparison to other aggregate shocks. In fact, our calibration and simulation results suggest that wealth transfer shocks would need to be around nine times as large in order to produce the GDP volatility created by productivity shocks. The policy implications of our work primarily consist in providing guidance for research that tries to empirically estimate the aid-growth relationship.

**Keywords:** Foreign aid, remittances, volatility, growth

**JEL:** F24, F35, F44

## 1. Introduction

It is well known that aid and remittance receiving economies are substantially more volatile than their richer counterparts. It is also well known that wealth transfers, such as aid

\*Corresponding author. Tel.: +1-519-253-3000 Ext. 2380

Email addresses: [kannen@uoguelph.ca](mailto:kannen@uoguelph.ca) (Kurt Annen), [michael.batu@uwindsor.ca](mailto:michael.batu@uwindsor.ca) (Michael Batu), [kosempel@uoguelph.ca](mailto:kosempel@uoguelph.ca) (Stephen Kosempel)

Download English Version:

<https://daneshyari.com/en/article/5101698>

Download Persian Version:

<https://daneshyari.com/article/5101698>

[Daneshyari.com](https://daneshyari.com)