

Multiple Equilibria arising from the Donor's Aid Policy in Economic Development

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Abstract

This paper presents a neoclassical growth model comprising education and child labor with a focus on developing and aid-receiving countries to demonstrate cyclical growth and bifurcation in economic development. Numerous studies have explained the bifurcation in terms of the internal affairs of the recipient country, such as technology in production, subsistence minimum in consumption, and liquidity constraint in investment. The main argument of this paper is that the aid allocation policy employed by the donor countries, thereby the motive of the aid-providers, leads to divaricated and cyclical development in the recipient country.

Key words: Aid allocation policy, Multiple equilibria, Cyclical growth, Economic development

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