

# Three Essays on Foreign Aid Effectiveness in a Small Open Economy

## Motivation for Dissertation

Foreign aid may be in need of aid. Tens of billions of dollars are allocated each year with the goal of fostering economic growth and development in recipient countries. Yet, empirical evidence about the effectiveness of such aid is mixed. Some researchers have gone as far as to say that recipients suffer from the aid ‘curse’. And this is in spite of the focus within the last decade to ensuring that a ‘good policy environment’ for aid exists in the recipient countries. But why is it that aid is a curse in as many countries as it has helped? Are there factors in the aid mechanism that have been compromising its own effectiveness? Have we been looking at the incorrect outcome measures?

In the first two papers of my dissertation, I focus on the link between foreign aid and macroeconomic variables. In both papers, I contrast the effects of ‘tied’ and ‘untied’ aid, as well as a variety of other aid scenarios on key macroeconomic variables. My work involves theoretical models that can help to make robust previous theoretical results on the aid and growth link and help shed light on the ‘aid curse’ phenomenon.

In Paper 1, I ask the question: What is the mechanism by which foreign aid may be effective in affecting economic growth? To answer this question, I build a non-scale growth model to explore how the composition of foreign aid contributes to macroeconomic performance in a small, open economy.

In Paper 2, I ask the question: Are there possible factors that hinder foreign aid effectiveness? I use a simple neo-classical model of a two-good, one-sector, small, open economy with capital accumulation to examine how the composition of aid affects the real exchange rate dynamics in the recipient economy.

In Paper 3, I examine empirically the relationship between foreign aid and the real exchange rate that I discuss theoretically in Paper 2.