

Aid, rent-seeking and growth

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Abstract

The purpose of this paper is to examine the relationship between the level of foreign aid and the growth in recipient countries by using the overlapping generation model with a rent seeking. Furthermore, we consider the two agents: workers and entrepreneurs. A foreign aid encourages entrepreneurs to spend time on rent-seeking activities, which decrease the production of final good. We find that a foreign aid can reduce the growth of human capital-accumulation and but always reduces the growth of the final good temporarily and increases the growth of the final good in the long-run.

Keywords: Foreign aid, Growth, Rent-seeking, Human capital

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