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In this paper we model the effect of migrant remittances on job creation and human capital formation,

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given migration prospects. Model calibration of deep parameters was performed with data from the AMCO survey on migration and remittances. The simulations based on the model show that remittances can have offsetting effects on equilibrium human capital and labor market outcomes in the country of origin of migrants. First, remittances enhance schooling opportunities for recipient households, and human capital formation can be augmented. Second, an increase in human capital supply by recipient households induces job creation as labor demand increases in the origin country. If a sufficiently large share of remittance recipients do not migrate, then the net effect is brain gain rather than brain drain ensuing remittances. The job creation spillover in local labor markets increases the rate of return to schooling for nonrecipient households, whose members are less likely to migrate. As a result, there are more incentives to substitute consumption for human capital investment. At the same time, the rise in expected income due to the spillover induces higher desired consumption. If the “substitution effect” outweighs the “income effect”, then remittances will increase overall human capital and reduce the unemployment rate. The calibration and simulation analyses suggest that the net effect of remittances depends upon the accessibility of education and the degree and labor market frictions in the origin country as well as the immigration policy in the destination country of migrants.

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