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CLEARED PRELIMS

NEXT IAS

(To be filled by candidate)

Name of Candidate : NESRIN P FASIM

Roll No. : ..... Contact No. .....

e-mail: ..... Date of Examination : .....

Exam Centre : Old Rajinder Nagar ☐ Online ☑

CSE (MAINS) TEST SERIES-2024

Test-02	ECONOMICS OPTIONAL
Dated : 07-07-2024	*(International Trade and Development Economics)*

Time Allowed : Three Hours

Maximum Marks: 250

QUESTION PAPER SPECIFIC INSTRUCTIONS

(Please read each of the following instructions carefully before attempting questions)

*There are **EIGHT** questions divided in **Two sections** and printed in **ENGLISH**.*

*Candidate has to attempt **FIVE** questions in all.*

***Question No. 1 and 5** are compulsory and out of the remaining, any **THREE** are to be attempted choosing at least **ONE** question from each section.*

The number of marks carried by a question/part is indicated against it.

Answers must be written in the medium authorized in the Admission. Certificate which must be stated clearly on the cover of this Question-cum- Answer (QCA). Booklet in the space provided.

No marks will be given for answers written in a medium other than the authorized one.

Word limit in questions, wherever specified, should be adhered to.

Attempts of question shall be counted in sequential order. Unless struck off. Attempt of a question shall be counted even if attempted partly. Any page or portion of the page left blank in the Question cum Answer (QCA). Booklet must be clearly struck off.

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(For filling by Examiners only)

Q. No.	Page No.	Max. Marks	Marks	Total	Signature
1. (a)	4	10			
1. (b)	6	10			
1. (c)	8	10			
1. (d)	10	10			
1. (e)	12	10			
2. (a)	14	15			
2. (b)	17	20			
2. (c)	21	15			
3. (a)	24	15			
3. (b)	27	20			
3. (c)	31	15			
4. (a)	34	20			
4. (b)	38	10			
4. (c)	40	20			
5. (a)	44	10			
5. (b)	46	10			
5. (c)	48	10			
5. (d)	50	10			
5. (e)	52	10			
6. (a)	54	20			
6. (b)	58	20			
6. (c)	62	10			
7. (a)	64	15			
7. (b)	67	15			
7. (c)	70	20			
8. (a)	74	20			
8. (b)	78	20			
8. (c)	82	10			
Grand Total					

Remarks

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Observations:

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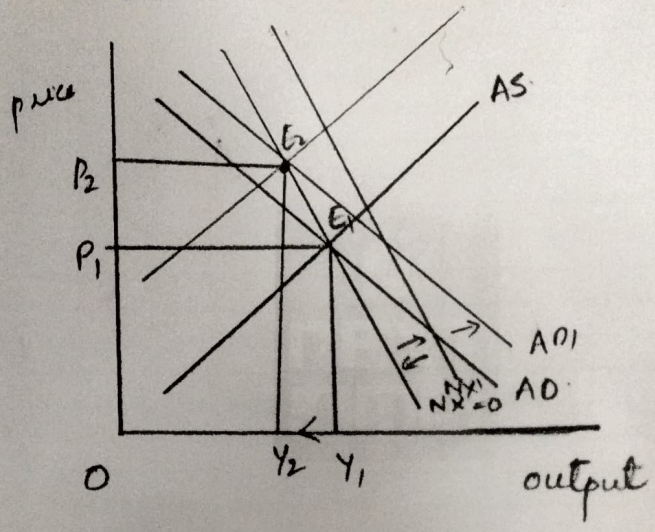
SECTION-A

(10 × 5 = 50)

Q.1 (a) **Write notes on the following in about 150 words each:**

Explain using RD-RS curve, the impact of a transfer on importing country. Illustrate all cases.

An importing country's price and output can be affected by a transfer from external country.



Initial equilibrium of internal & external equilibrium → if transfer increase → NX curve and AD curve shifts to right → NX_1 & AD_1

→ in case of fixed exchange rate → due to increase in price → exports decreases → pressure on currency to devalue → Aggregate supply curve shifts to left where money supply decreases → equilibrium at E_2 with price increasing and output reduced →

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there will be trade surplus (left of NX curve).

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Q.1 (b) Comment on the empirical evidence of the PPP theory.

The Purchasing Power Parity theory explains that the exchange rate of a country can be determined by comparing the price of a basket of goods in the two countries and that determines the exchange rate.

For eg. If 1 kg apple costs ₹60 in India & $1 in US

Exchange rate ⇒ $1 = ₹60.

However the empirical evidences for the theory holds the following conclusions:

(1) It is applicable mostly to countries which are closely situated.

(2) Mainly applies to tradeable commodities & not to non-tradeable commodities.

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(3) Effect of import tariffs or transportation costs may weakes the proposition.

(4) It cannot be applied to heterogeneous set of commodities & applies to homogeneous commodities only.

In short, later the exchange rate determination based on demand and supply of foreign exchange created the ~~most~~ much more valid explanation of ~~the~~ theory of exchange rate.

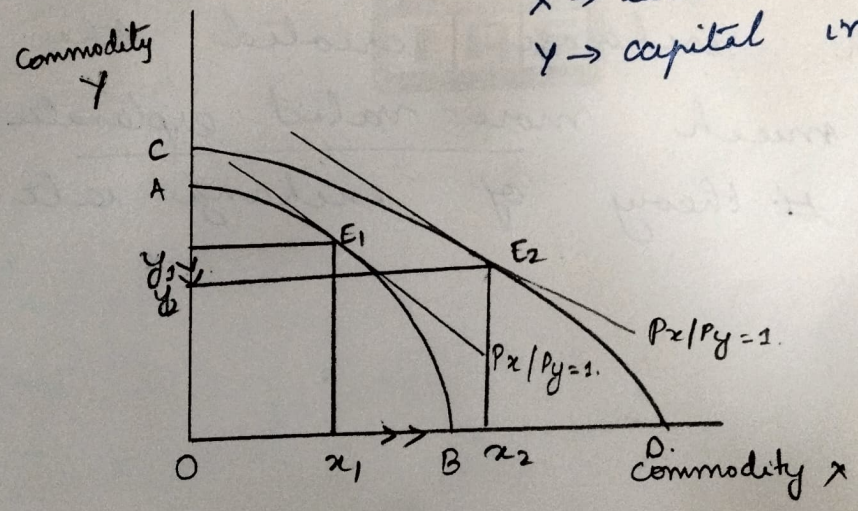
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Q.1 (c) Explain Rybczynski theorem.

Rybczynski theorem states that as the trade takes place in an economy, with the increase in export of labour-intensive commodity in a country, it specialises in the same commodity and reduces the production and specialisation of capital-intensive commodity, where the price ratio remains constant.

X → labour intensive
Y → capital intensive



The figure explains that ~~with~~ the original PPC is AB, i.e., before trade, the country will produce Ox, amount of commodity X and OA, amount of commodity Y. With specialisation in X, the country's ~~the~~ PPC shifts

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to CD. It starts to produce more x (Ox_2) and less y (Oy_2). i.e., the production has decreased from Oy_1 to Oy_2.

The equilibrium shift is from E_1 to E_2, keeping the price ratio constant. This is because of the fact that with more increase in production of x, $\frac{w}{r}$ remains constant because with increase in production of x same amount of labour and capital are transferred from the production of y, such that the $\frac{K}{L}$ ratio remains constant & $\frac{w}{r}$ remains constant.

Rybczynski theorem is based on inter-industry trade.

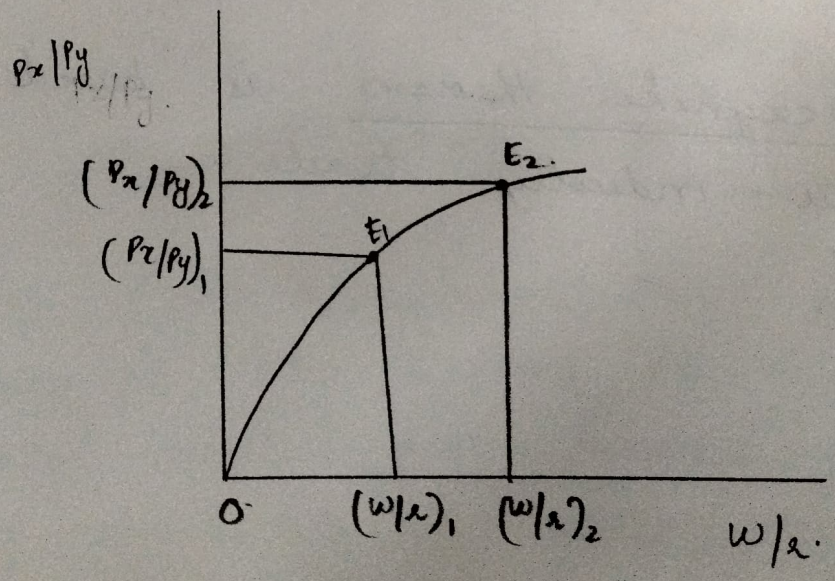
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Q.1 (d) What is Stolper-Samuelson theorem?

The Stolper Samuelson theorem was emerged as an extension of H-O model, which states that there will be increase in returns to the factor if its relative price is increasing in the world market.

Suppose a country 2 specialising in commodity Y (labour-intensive commodity) imposes a tariff on commodity X, which is it importing. This leads to increase in $\frac{P_x}{P_y}$, which leads to an increase in demand for labour, that increases $\frac{w}{r}$ ratio, i.e., wages increase with increase in demand for labour.



In the following figure, when the relative price ratio has increased,

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the $\frac{w}{r}$ ratio also has increased. The $\frac{w}{r}$ does not raise in same proportion as $\frac{P_x}{P_y}$ because some of the increase in capital is also needed for an increase in increase in $\frac{w}{r}$.

The theory explains how the factor-price equalisation takes place in the trade.

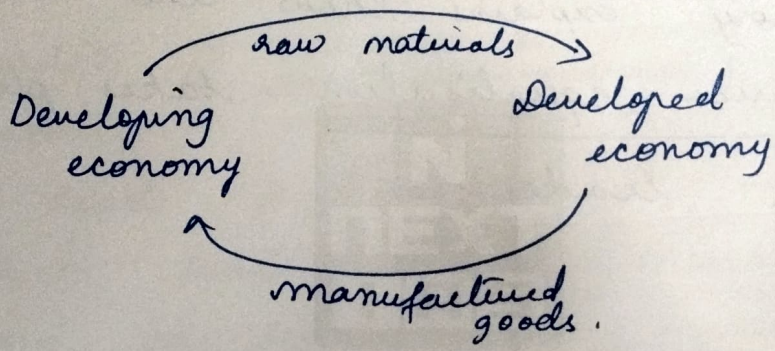
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Q.1 (e) Comment on political economy of policy of protection.

The policy of protection refers to the type of economic policy in which follows trade protectionism due to the theories of Gunnar Myrdal and Prebisch Singer backing it.

Prebisch–Singer hypothesis :



This affects the terms of trade of developing countries, i.e., they are having secular deterioration of ToT because :

- income elasticities for raw materials at developed countries can be low.
- more number of innovations may hinder the trade. (eg. Synthetic rubber)

Gunnar Myrdal in his theory of Cumulative causation also brings back

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the debate as Backwash effect, wherein the Centre (developed countries) exploits the Peripheries (developing countries).

Many countries like India followed Import substitution based growth model in initial years, which was initially successful due to
→ presence of already existing market for the goods.
→ existing capacity.

But later in ~~196~~ 1970s & 1980s, the Asian tigers followed the model of export promoting growth which made them progress (eg. Indonesia, Malaysia, etc.)

Protectionism benefits an economy by:
→ protecting infant industries
→ ensuring inflation is under control.
→ growth of sunrise sectors.

But it ultimately depends on nature of countries and their growth trail that influence policies.

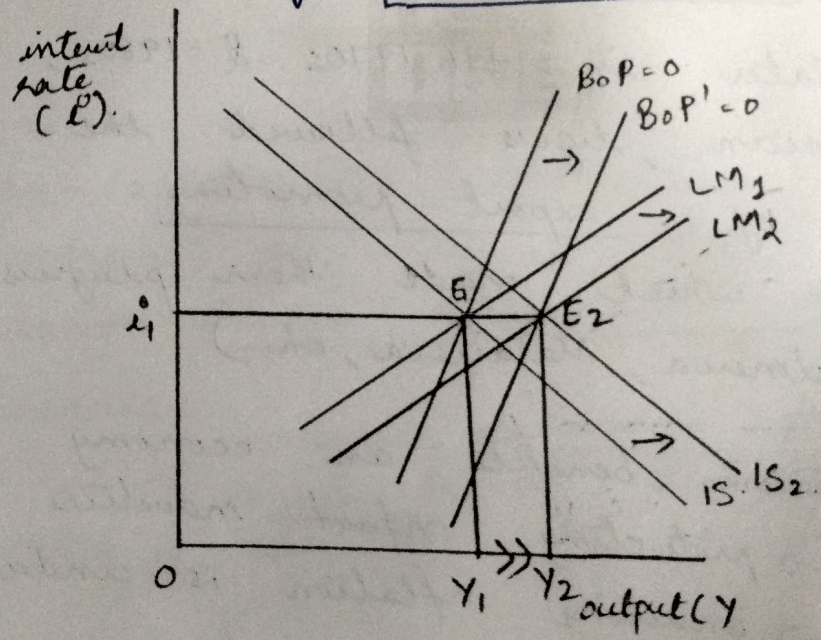
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Q.2 (a) Examine the impact of positive external shock on output and interest rate in case of imperfect capital mobility. (15)

Imperfect capital mobility refers to the situation in which the capital does not move freely among countries and the BoP curve curve is upward sloping (steeper than LM).

Impact of positive external shock

In case of **fixed exchange rate**:



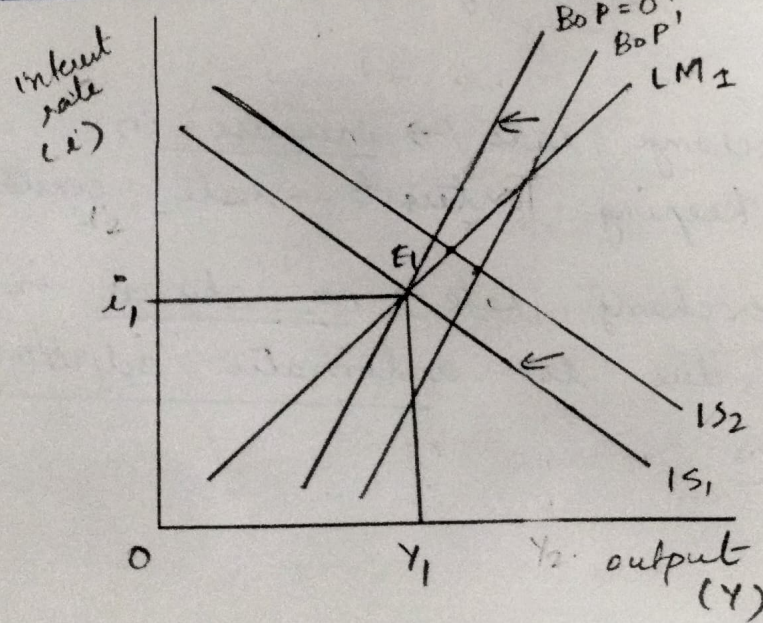
Suppose initial equilibrium is at E_1 when ~~out~~ external & internal market is in equilibrium → Due to positive external shock → BoP curve shifts to the right. ~~At~~ As BoP shifts

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right, IS also shifts to the right as IS_2 → now in case of fixed exchange rate, due to increase in exports & increase in capital inflows, there is a pressure on the currency to revalue → as a result, the Central Bank increases the money supply and LM shifts to right as LM_2, such that the output increases, but interest rate remains constant.

In case of [flexible/floating exchange rate]:



Initial equilibrium at E_1 → As positive external shock → BoP curve shifts to right, creating a BoP surplus at E_1 → IS also shifts to right as

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IS_2 because of increase in exports

→ During flexible exchange rate → currency ~~dep~~ appreciates due to an increase in capital inflow & exports

→ As a result the BoP curve shifts to left and the IS curve also shifts left due to reduction exports and capital inflow → reach original equilibrium

→ Therefore no change in output and interest rate.

To conclude, during positive external shock:

Fixed exchange rate → increase in output keeping interest rate constant.

Floating exchange rate → no change in output due to automatic adjustment mechanism.

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Q.2 (b) Critically examine H-O model. (20)

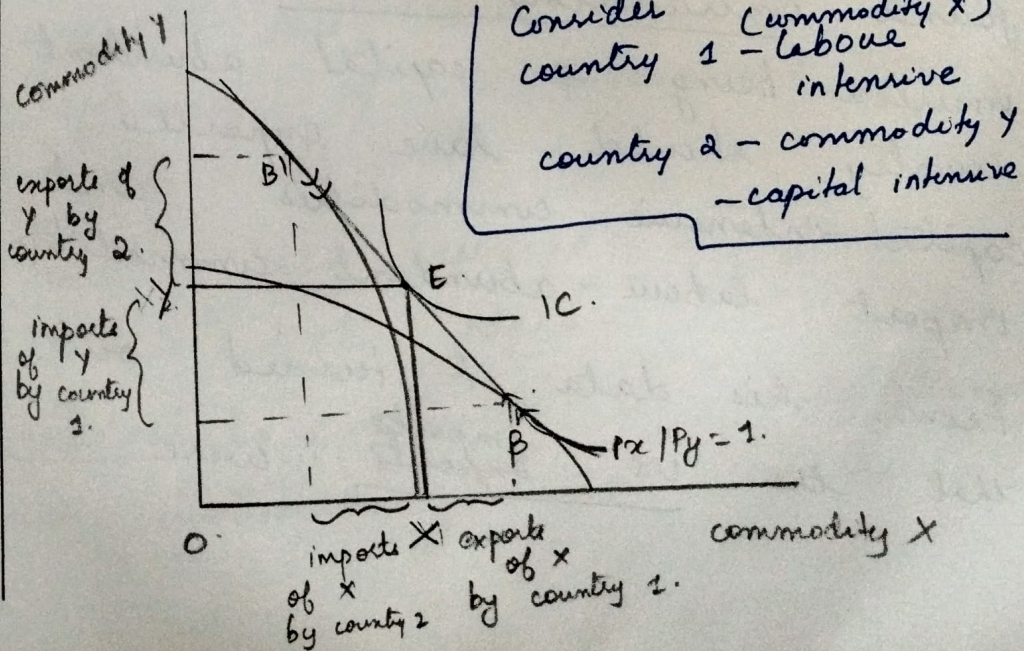
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The Heckscher-Ohlin model is an old trade theory which states that there will be trade by when a country specialises and exports those commodities in which it has abun higher factor intensity & imports those commodities that it has less factor intensity

eg:- Labour intensive commodities will be produced and exported by a labour abundant country.

Assumptions
- 2 country × 2 commodities × 2 factor model
- zero transportation cost
- full employment.
- perfect factor mobility within country & imperfect factor mobility within countries.

Consider (commodity X)
country 1 – labour intensive
country 2 – commodity Y – capital intensive



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The Heckscher-Ohlin equilibrium takes place at E where the price line and the highest most ~~to~~ indifference curve interseets such that country 1 that specialises in x exports x and country 2 that specialise in Y exports Y. They import the other commodity in which they have no factor abundance from the other country.

However the H-O theory was tested and had different conclusions:

① Leontief Paradox

An American economist Leontief took data from 1947-1953 based on input-output table and found contradictory results.

America being a capital abundant country should have exported capital-intensive commodities and import labour-abundant commodities

From his data, it turned out that the US ~~exports~~ imports were

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30% less labour intensive.

In 1956 again checked and found 6% less labour intensive imports.

This anomaly was explained as:

* Roden → Leontief didn't count the natural resources.
* Due to high tariff policies of US on labour-intensive imports.
* Orcas gave a valid explanation that this is because the US labour was more skilled such that human capital should be counted as capital, hence the exports are capital-intensive.
* Leontief himself gave explanation that this was due to high efficiency of US labour — 3 times more efficient.

However, later several empirical studies took place.

Reader → conducted a study across ~~20~~ 12 factors commodities & 26 countries

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and found that the H-O theory holds true in all the cases.

Broader conclusions on several studies showed that H-O theory is valid in case of bilateral trade when the economies are at close distance and their trade is based on factor-abundance.

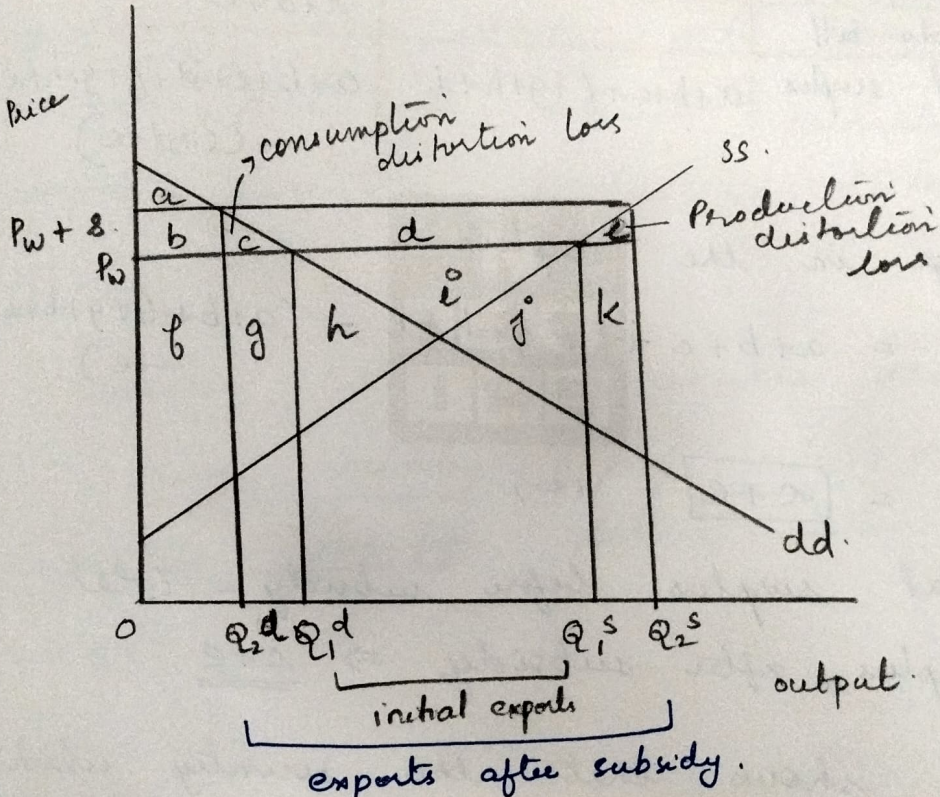
H-O theory hence holds a special place due to its explanation of inter-industry trade and factor abundance as a factor affecting trade.

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Q.2 (c) Explain the impact of export subsidy on welfare of the country. (15)

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Export subsidy can be refered to as the subsidy given to the exporters by the government to improve exports. It creates an unambiguous welfare loss.



Consider the demand curve DD and supply curve SS of a domestic economy. $Q_1^d\ Q_1^S$ is the initial exports. After imposing a subsidy, the exports have risen by ~~$Q_2^d\ Q_2^d$~~ $Q_2^d\ Q_2^S$. Price after subsidy has been set at $P_W + S$.

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On examining the welfare:

	Before subsidy	After subsidy
Consumer surplus	a+b+c	a.
Producer surplus	f+g+h+i	b+c+d+f+g+h+i
Subsidy bill		c+d+e.
Total surplus	a+b+c+f+g+h+i	a+b+f+g+f+g+h+i −(c+d+e)

Change in the surplus

= a+b+c+f+g+h+i − (a+b+f+g+h+i −e).

= $\boxed{c+e}$ i.e.,

Total surplus before subsidy − Total surplus after subsidy ⇒ $\underline{\underline{c+e}}$

This shows that the country which imposes an export subsidy suffers an unambiguous welfare loss due to Consumption distortion loss (c) & Production distortion loss (e).

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This analysis explains that for an export subsidy, the country which provides it has no benefit. It loses the consumers who could have purchased it at a lower price level. And the other producers who have got no market due to export subsidy suffers from a production distortion loss.

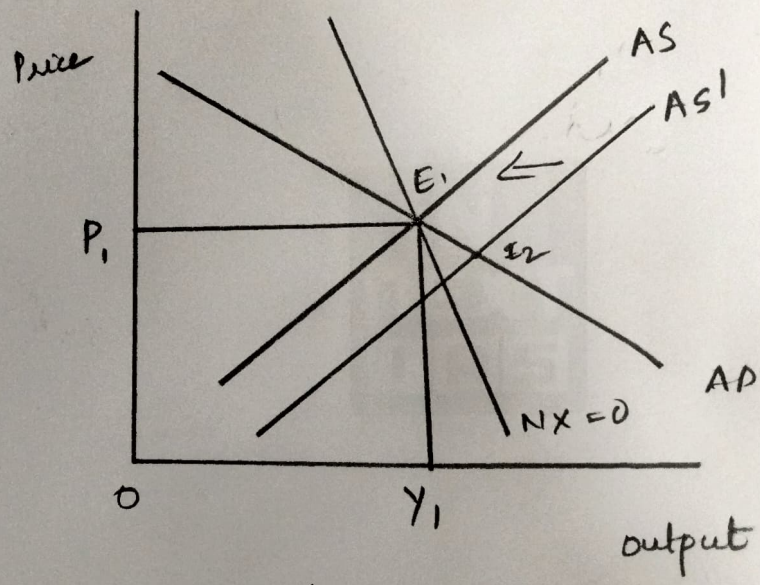
Therefore, it is advisable that a large country could rely on imposing tariffs rather than subsidy.

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Q.4 (a) What is the impact of a positive real shock on Aggregate Demand, price and output in open economy? (20)

In an open economy, the positive real shock refers to a change in Aggregate supply.

In case of fixed exchange rate:

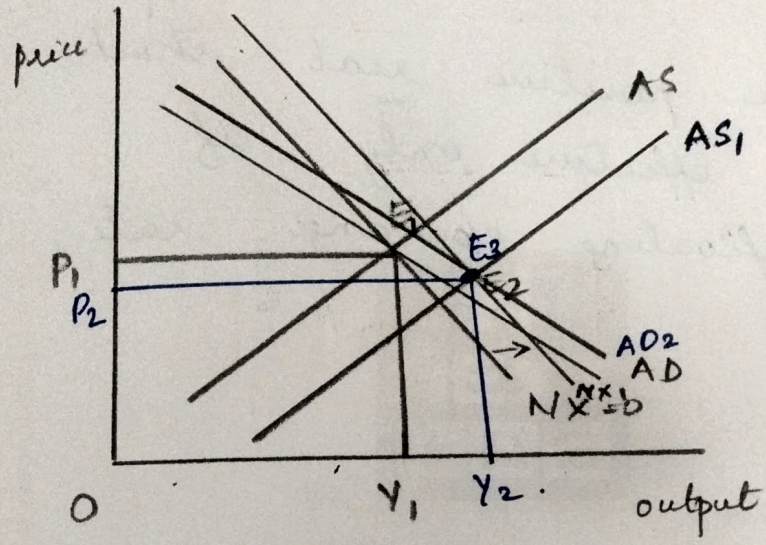


Initial equilibrium at E_1 with Y_1 output and price P_1 → positive external shock and shift of AS to right → At E_2 leads to ~~less~~ trade deficit (right of NX curve) → pressure on currency to devalue → reduces the money supply → AS curve shifts to left and reach original equilibrium.

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i.e., At fixed exchange rate with positive real shock → no change in AD, price and output.

In case of floating exchange rate:



Suppose initial equilibrium at E_1. Due to positive supply shock → AS shifts right to AS_1. At point E_2 → trade deficit → Depreciation takes place → NX shifts to right → due to increase in exports, Aggregate demand shifts to right (AD_2) → At E_3, price has decreased and output increased.

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So in case of floating exchange rate
⇒ due to real AS shock ⇒
output increased, price decreased and AD has increased.

Therefore a positive real shock will be effective only if it is floating exchange rate system.

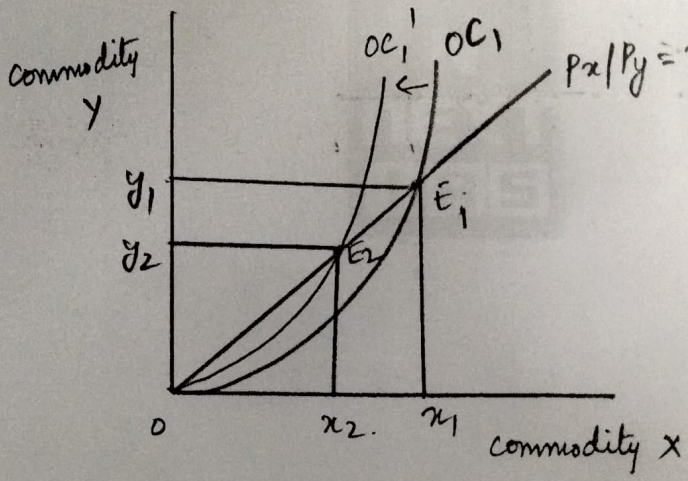
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Q.4 (b) Explain the general equilibrium import of tariff levied by small and large country. (10)

Import tariff has differential impacts on different countries according to their size and importance in world markets.

General equilibrium import of tariff effects:

(1) On small country



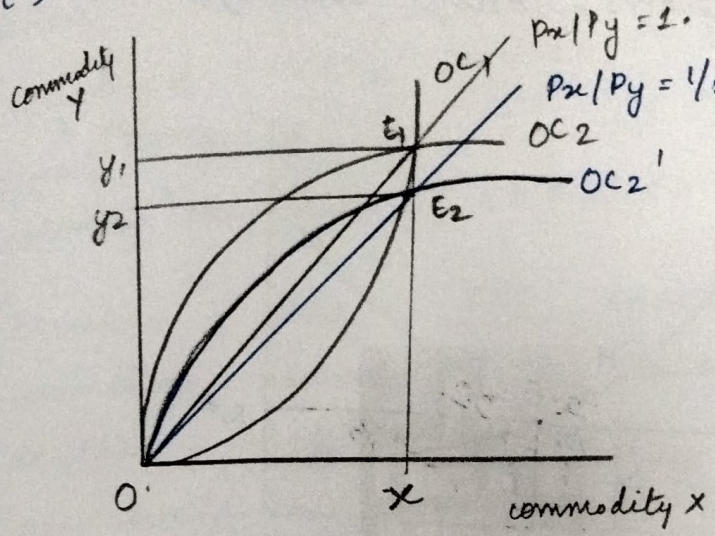
In case of a small country, the initial equilibrium is at E_1 where the offer curve of country 1 intersects the price ratio of rest of the world/large country. On imposing tariff, the offer curve shifts upwards to OC_1', an reach the point E_2, which

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shows the P_x/P_y remains same & the small country can't influence world prices & is at a disadvantage

(2) On **large country**

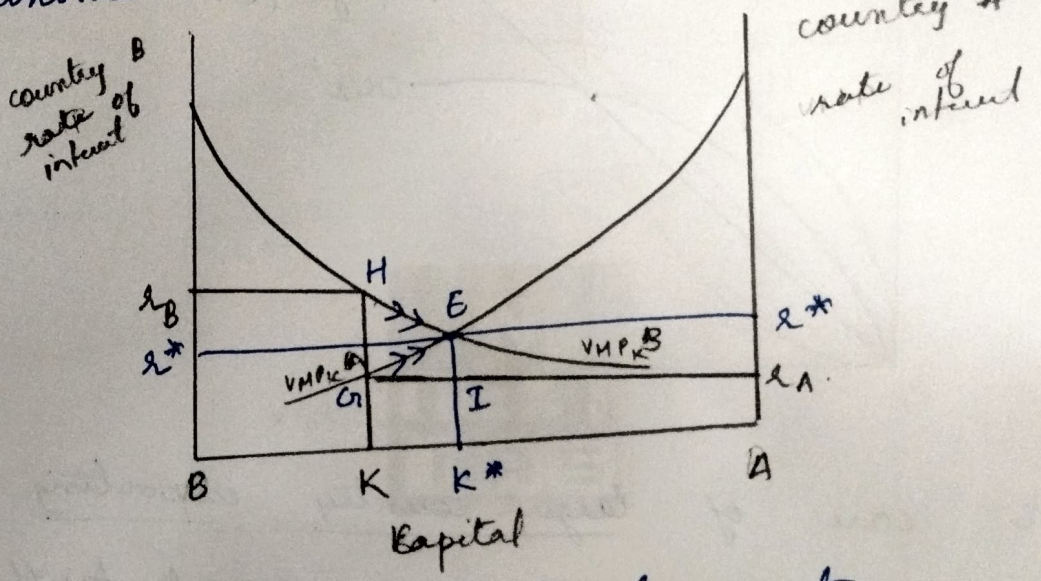


In case of large country exporting Y, as it imposes an import tariff, the ~~OC_2~~ offer curve OC_2 becomes flat and shifts to right, making P_x/P_y flatter and the P_x/P_y decreases as it can influence the P_x/P_y in the world market. (change of point E_1 to E_2). This shows that country 2 can bargain in the market & has power, thus getting improved gains after import tariff than small country.

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Q.4 (c) Describe the classical theory of F.D.I.

The classical theory of FDI was formulated in 1950s and 1960s that explained how the capital moved from one country to another.



country A → developed country
country B → developing country

Suppose the initial rate of return for capital is r_B for country B & r_A for country A and BK amount of capital supply for B & AK for A. Due to higher returns at B, the country A invests its capital at country B. In country B, with rise in capital, the value of marginal product of capital decreases. And

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due to decrease in capital stock of capital in country A, the $VMPK^A$ increases such that they both reach at point E where where the rate of returns are equalised ($VMP_K{}^A = VMP_K{}^B$) and equal level of capital to both ~~country~~ countries ($AK^* = BK^*$).

Therefore the FDI benefits both countries, because in earlier case # the area HGI was lost as welfare loss and after FDI flow and equalisation of rate of return and capital flow, there is no welfare loss.

However the FDI model was modified by Dunning and provided an Eclectic model of FDI or OLI model which explains why FDI flows among countries.

He says that there are three

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factors affecting flow of FDI:

① Ownership - when a foreign firm thinks that rather than outsourcing, it could control the whole production process → it invests in country for horizontal integration (ownership of strategic means) and vertical integration (ownership of raw materials).

② Locational advantages - when a foreign firm finds that there is market opportunity in the investing country or markets near it, the FDI flows.

③ Internalisation - In this case, the investing country is reluctant to share its production techniques with other firms in the an

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another country. So it invests as FDI in that country.

Thus the FDI classical model explained the reasons for flow of FDI and its positive advantages only rather than its negative prospects such as unbalanced growth in sectors

eg:- India — FDI flows in service sector not positively affecting agricultural sector.

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SECTION-B

(10 × 5 = 50)

Q.5 (a) **Write notes on the following in about 150 words each:**
Examine the free rider problem in environmental degradation.

Free rider problem refers to the overutilisation of public goods and gradually resulting in negative externalities. This occurs due to the presence of those goods without any payment.

In environmental degradation, the free rider problem occurs due to the issue of not assigning a cost to the environmental resources which results in 'Tragedy of common environmental resources'

For example, take the case of a common aesthetic pond. If not regulated, people may use it to throw garbages and landfills → leading to destruction of that common resource.

The problem of free ridership could be solved through many

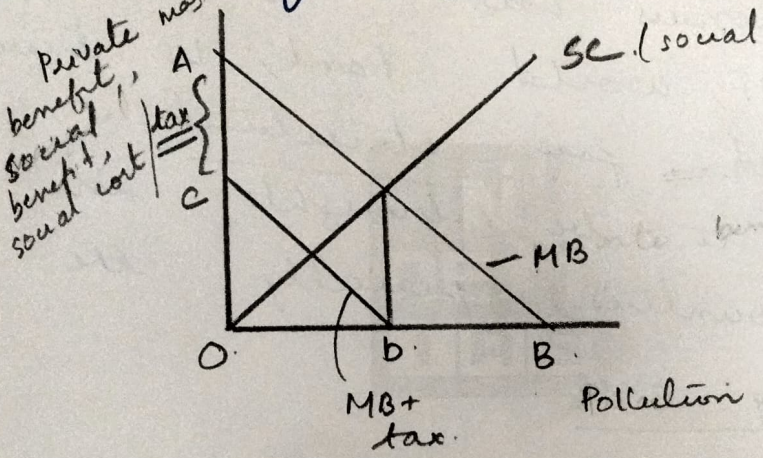
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ways like:

① Restrictions through legal means
eg:- Environment protection Act, formation of CPCB, etc..

② Economic restrictions

for eg:- Polluter pay principle advocated by Pigouvian tax:



In this case the tax imposed as ~~MB+~~ marginal benefit + tax shifts the maximum pollution to be done to O from B. This can reduce the social cost of environmental degradation.

Other methods includes the Coasian property laws methods of inorder to decrease the environmental degradation.

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Q.5 (b) Explain the role of Washington Consensus in redefining the role of state.

Washington consensus was a set of ten economic principles that was formulated by economic organisations based in washington during 1970 & 80s.

The consensus was sought after by IMF, world bank, US treasury reserve, etc.. for structural reforms to be brought in many countries, especially the developing ones.

It was for the promotion of free trade and efficient growth among countries which were not open. It aimed at opening the trade to several countries & formulation of assistance in such a way that many people would get benefits.

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Redefining role of state:

① State should'nt have centralising tendencies - rather be open to market decisions.

② There should be less regulations by the states.
eg:- Market should be free in allocations.

③ State should'nt impose import-substituting industrialisation which would hinder domestic pdn & global production.

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Q.5 (c) What are the core requirements of strategy of agricultural and rural development?

Agriculture in India contributes only around 15% of the total GDP. This is evident in the low rural development of our country.

For agricultural growth

1. Improve agricultural extension services to farmers. eg:- weather forecasts
2. Develop better coldchain and warehousing facilities.
3. Bring a distinction between MSP and procurement price → better transparency.
4. Improve linkages to manufacturing sector. eg:- Food procuring industry is a sunrise industry.
5. Improve marketing services - like better functioning of APMCs and less exploitation by middlemen
6. Land provisioning & good land policies.
7. Reduce overirrigation, salinisation through sustainable agricultural

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practices — eg - Drip irrigation, Precision agriculture, etc.

(8) Market availability — E-NAM ⇒ tech. support.

For Rural Development

(1) Enhance connectivity (Gram Sadak Yojana).

(2) Improve agriculture - industry linkages - eg:- small industries at rural areas.

(3) Employment & educational opportunities to women & weaker sections.
eg:- Eka Vidyalayas at tribal regions.

(4) Increase schemes by Panchayati Raj ministries for rural areas - eg:- Gender budgeting.

(5) Increase NABARD's fund devolution through PACS and cooperatives.

"India's growth lies in the villages", as said be Gandhiji enlargine the importance of these rural & agricultural areas in our growth path.

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Q.5 (d) Analyse the policy of balanced growth.

The policy of balanced growth was put forward by Ragner Nurkse as extension to the theory of Big Push given by Rosenstein Rodan.

Balanced growth states that there should be simultaneous investment in all the industries and sectors such that linkages would be established simultaneously & growth will be possible in all sectors.

It could also induce leakages in the vicious cycle of poverty from the demand side and the supply side.

ie.,

Demand side

low employment → low investment → Low income → (back to low employment)

Supply side

low income → low investment → low savings → (back to low income)

Ragner Nurkse suggests to improve the growth through :

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⇒ Investments at agricultural & manufacturing sector

⇒ At real & financial sectors

⇒ At rural & urban economy.

However balanced growth has criticisms like:

(1) Gunnar Myrdal → leads to increase cost and investment ⇒ wastage of resources.

(2) May not establish linkages due to different initial levels of development.

Later Albert O Hirschmann advocated for unbalanced growth theory which focused on lumpsum investment in one niche of sector & that would penetrate to other sectors.

However both models can complementarily work to achieve high economic growth.

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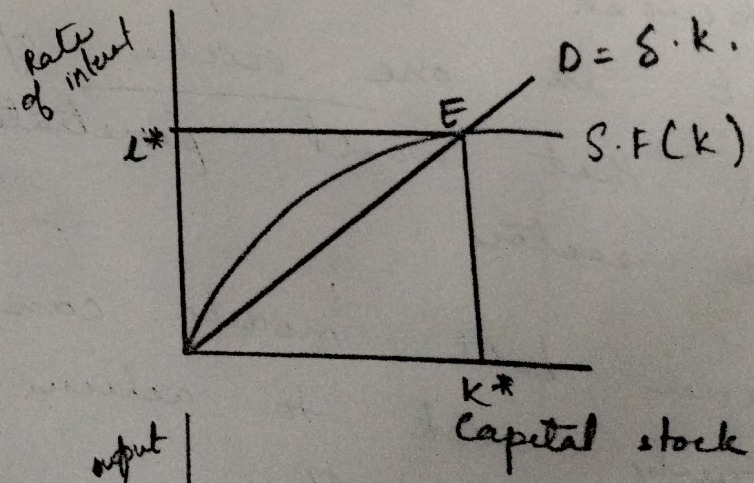
Q.5 (e) Explain the theory of Solow model with respect to role of saving in development.

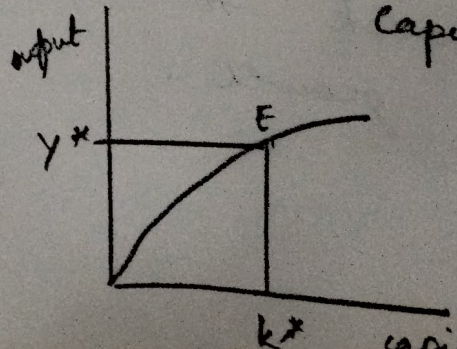
Solow model was brought about later as a reaction to Harrod-Domar model and broke the assumption that capital-output ratio was constant.

Solow suggested that there should be growth of all factors of production & for the investment and savings to generate income and reach steady state of growth.

Role of savings in Solow model:

Solow model:



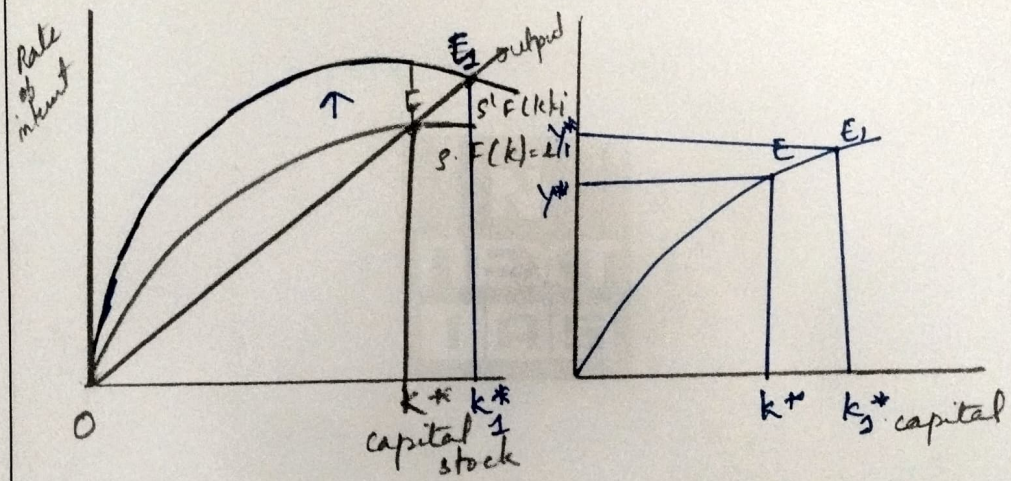


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According to Solow, the steady state happens at E with k* level of ideal capital stock such that the investment is equal to the rate of depreciation and the growth rate is zero.

If savings are increased,



In case of increase in savings, the investment curve shifts up and in order to that the capital stock will increase owing to more investment capacity, new steady state is reached at E_1 at new capital stock k_1^*. The output also increases to Y_1^*. Therefore the absolute growth rate is zero with increase in capital and output with increase in savings.

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Q.8 (a) How is Rostow's stages of growth different from Marxian stages of growth? (20)

Stages of growth were explained by both Marx and Rostow that provides description of how an economic system progresses in its growth path.

Brief model of Marx & Rostow

Marx's stages of growth

⇒ Based on dialectic materialism

Stages:

① Primitive communal stage ⇒ where tribal society and clans lived using menial jobs and had only production for their needs.

② Slavery – where people exploited people

③ Feudalism – where large land owners extracted surplus from the land and the serfs were exploited from surplus.

④ Capitalism – gradual shift to capital based manufacturing sectors and creation of industrial reserve army ⇒ where the capital controlled

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labour → later reduction in profits of capitalists due to complete displacement of labour.

(5) Socialism - withering away of state and proletariat ~~or~~ over capitalists

Rostow's stages of growth

(1) Primitive society who lives on Pre-Newtonian science & technology.

(2) Pre-conditions of take off → start of conditions for higher sustained growth like shifting to higher social overhead capital & making ideal conditions for take off.

(3) Take off - sustained growth of economy with increase in investment being around 5% - 10% of the total GNP and sectoral growth also increasing.

(4) Drive to maturity - The society & economy reaping benefits of take off stage such that all the sectors are having an ideal growth.

(5) Age of high mass consumption - where

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the economy changes from a production oriented to a consumption oriented society with huge consumer base for produced goods.

Differences

Marx	Rostow
① Explained the theory on the basis of historical timeline.	① Never had a historical perspective, rather explained just how different stages look like.
② Considered both economic & non-economic factors	② Relied purely on economic factors.
③ Considered labour and capital relations to explain things	③ Didn't consider more on labour-capital relations.
④ Mostly based on societal evolution in different societies	④ Did not consider real life of all societies. It mainly focused on America's economy's growth.

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Marx	Rostow
⑤ Assumed that a stateless society possible	⑤ No such assumption, only works with state.
⑥ Didn't focus on growth rates & investment	⑥ Focused on growth rates & investment.

However both theories were similar in certain aspects:

- tried to study evolution of an economy.
- connected to how social relations led economic relations.
- showed the zenith of growth phases.

Both the theories hold prominence in the present context owing to different geo-political situations in explaining different countries' growth path.

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Q.8 (b) Explain Harrod's knife edge equilibrium.

Harrod formulated his theory of economic growth that depends on the idea of a steady state of growth which once disturbed cannot be come back to original position and will diverge.

He based his theory on three growth rates:

① Warranted rate of growth:

↳ This is the rate of growth at which the economy is at full employment equilibrium where the supply of capital stock of investment is dependent.

ie., $$G_w = \frac{s}{C_r}$$

where G_w → warranted growth rate
s → savings rate.
C_r → marginal capital output ratio $\left(\frac{\Delta K_r}{\Delta Y}\right)$.

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② Actual rate of growth

↳ This is the actual rate of growth were the demand for investment creates the adequate capital stock needed for the economy.

$$g = \frac{s}{C}$$

where $g \rightarrow$ actual growth rate.

$s \rightarrow$ savings rate.

$C \rightarrow$ marginal capital output ratio (actual capital) $\left(\frac{\Delta K}{\Delta Y}\right)$.

At steady state $\Rightarrow$ $G_r = G_w$

Harrod explains knife edge equilibrium as:

Case 1 $\Rightarrow$ If $g > g_w$

In this case $\frac{s}{C} > \frac{s}{C_r}$, i.e., $C_r > C$,

In this case the entrepreneurs think that the required capital stock is lesser than the ideal rate of capital to create growth and increases their investment $\rightarrow$ leading to further

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divergence of the growth rate, i.e., increased actual growth rate and inflation.

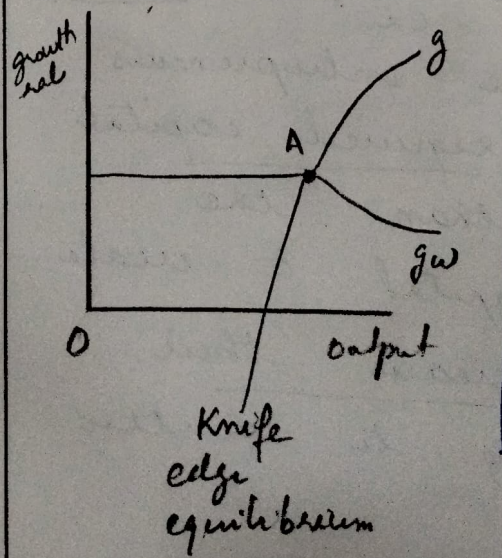
Case 2 ⇒ If $g_w > g_a$,

i.e., the warranted growth rate greater than actual growth rate

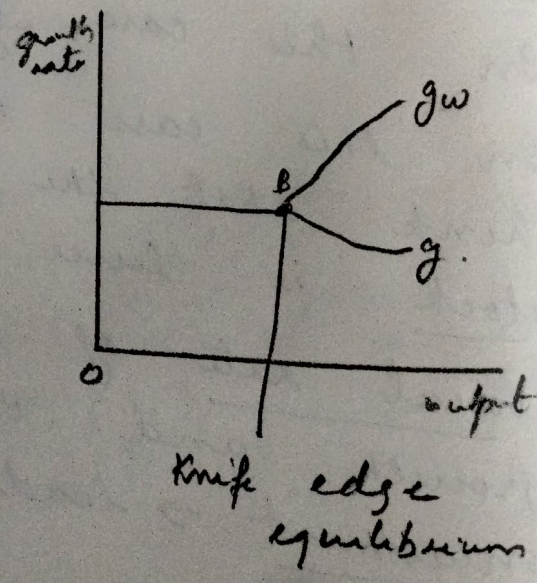
$C_r < C$

In this case, the entrepreneurs think that they have to decrease their investment in capital further reducing the the actual growth rate, further deflation takes place.

Case 1



Case 2



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Point A and Point B indicates Knife edge equilibrium. There are the points at which where the ~~output~~ economy is like a "ball at a glassy slope", according to Harrod. Since if the steady state equilibrium of $g = g_w$ is disturbed at any point, it leads to disequilibrium & divergence from the steady state and further changes by market will further diverge the growth rates rather than coming into the original steady state.

Harrod opined that inorder to correct knife edge equilibrium, the policy tools must contribute in keeping the growth rate at steady state.

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Q.8 (c) What is the role of remittances in economic growth? (10)

Remittances refer to the factor incomes, especially the wages of the labour who are working at a foreign country & sending their earnings into home country. Recently, India was the top country receiving around $ 1 billion as remittances, according to UN data bank.

Role of remittances in economic growth:

① Adds to savings potential & investment in home country.

② Consumption spending and demand boostage by family members.

③ Adequate foreign exchange for home country during the time of need

④ Better relations with the foreign country due to close

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country relations.

(5) Human capital development due to remittances flowing to educational needs of children of people.

(6) Diaspora & cultural connect → enhancing both countries' trade relations.

However, remittance based economy may suffer if it is only depending on it such as the cases during a pandemic or other instances like a global financial crisis.

Therefore, there should be better regulations of remittances as well as proper utilisation in the home country for faster economic growth.