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Nota di contenuto	Contents; I. Introduction; II. Two Sector Model of Foreign Aid; A. The Economic Structure; B. Macroeconomic Equilibrium; III. Steady State Equilibrium; A. Long-Run Effects of Transfers on the Relative Price; B. Transfers, Economic Activity, and the Dutch Disease; IV. Numerical Analysis; A. Calibration; B. Optimal Government Spending; C. Initial Benchmark Equilibria; V. Foreign Aid Flows: General Characteristics of Real Exchange Rates; VI. Pure Transfer; A. Traded Sector is Capital Intensive: ($>$); B. Nontraded sector is capital intensive: ($>$) VII. Productive Government Spending in the Traded Sector A. Traded sector is capital intensive ($>$); B. Nontraded sector is capital intensive ($>$); VIII. Productive Government Spending in the Nontraded Sector; IX. Welfare Analysis; X. Effect of Cost of Debt; XI. Conclusions; Tables; 1. The Benchmark Economy; 2. Key Steady-State Equilibrium Ratios; 3. Steady-State Responses to Permanent Changes; 4. Welfare Analysis; Figures; 1. Capital and Debt; 2. Financial Variables; 3. Sectoral Activity and Output; 4. Consumption and Welfare; 5. Sensitivity to Borrowing Premium: Untied Transfer 6. Sensitivity to Borrowing Premium: Productive Transfer to Traded Sector 7. Sensitivity to Borrowing Premium: Productive Transfer to Nontraded Sector; Appendix; References
Sommario/riassunto	A dynamic dependent-economy model is developed to investigate the role of the real exchange rate in determining the effects of foreign aid. If capital is perfectly mobile between sectors, untied aid has no longrun impact on the real exchange rate. A decline in the traded sector occurs because aid, being denominated in traded output, substitutes for exports in financing imports. While untied aid causes short-run real exchange appreciation, this response is very temporary and negligibly small. Tied aid, by influencing sectoral productivity, does generate permanent relative price effects. The analysis, which employs extensive numerical simulations, emphasizes the tradeoffs between real exchange adjustments, long-run capital accumulation, and economic welfare, associated with alternative forms of foreign aid.