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**THE IMPACT OF REMITTANCES ON THE NATION'S WEALTH  
AND BUSINESS DEVELOPMENT  
IN THE COUNTRY OF ORIGIN**

Globalization is making daily changes in people's lives that are always about finding the best place. The global migration debate has shifted from its previously narrow focus on asylum seekers, refugees and irregular migration to recognizing the contribution of migration to growth and prosperity in both source and destination countries, and improving the well-being of migrant workers themselves [1]. The recent discourse on migration and development has highlighted the role of remittances and circulating migration as key factors in promoting development in countries of origin. Therefore, the relevance of this study is to form an understanding of the impact of migrant remittances inflow on the development of society and the economic climate of their countries of origin.

George Borjas, an economist and professor of economics and social policy at Harvard Kennedy School, concluded that the question is not whether overall GDP increases labor migration, but how it affects the growth rate of real per capita income [2]. Migrant workers can themselves bring additional financial capital into the country to invest in their own or other businesses, counteracting the decline in capital, as shown by the example of New Zealand, Kate Moody [3]. In addition, immigrants can encourage the inflow of foreign direct investment (FDI) from abroad by providing information on business opportunities to investors in their country of origin and reducing transaction costs [4]. Ekrame Boubtane and Jean-Christophe Dumont note that because the age structure can affect the average savings rate in a country, the influx of younger or middle-aged workers can lead to an increase in overall savings [5]. The work of Elena Riabkina describes the relationship between

small business and migration in Moldova. The simulation results showed that receiving remittances has a positive effect on the growth of readiness to start your own business. Besides, the acquired knowledge and skills of working with bank accounts, increase confidence in the banking system in general, which in turn also stimulates the desire of the population to be involved in the business [6].

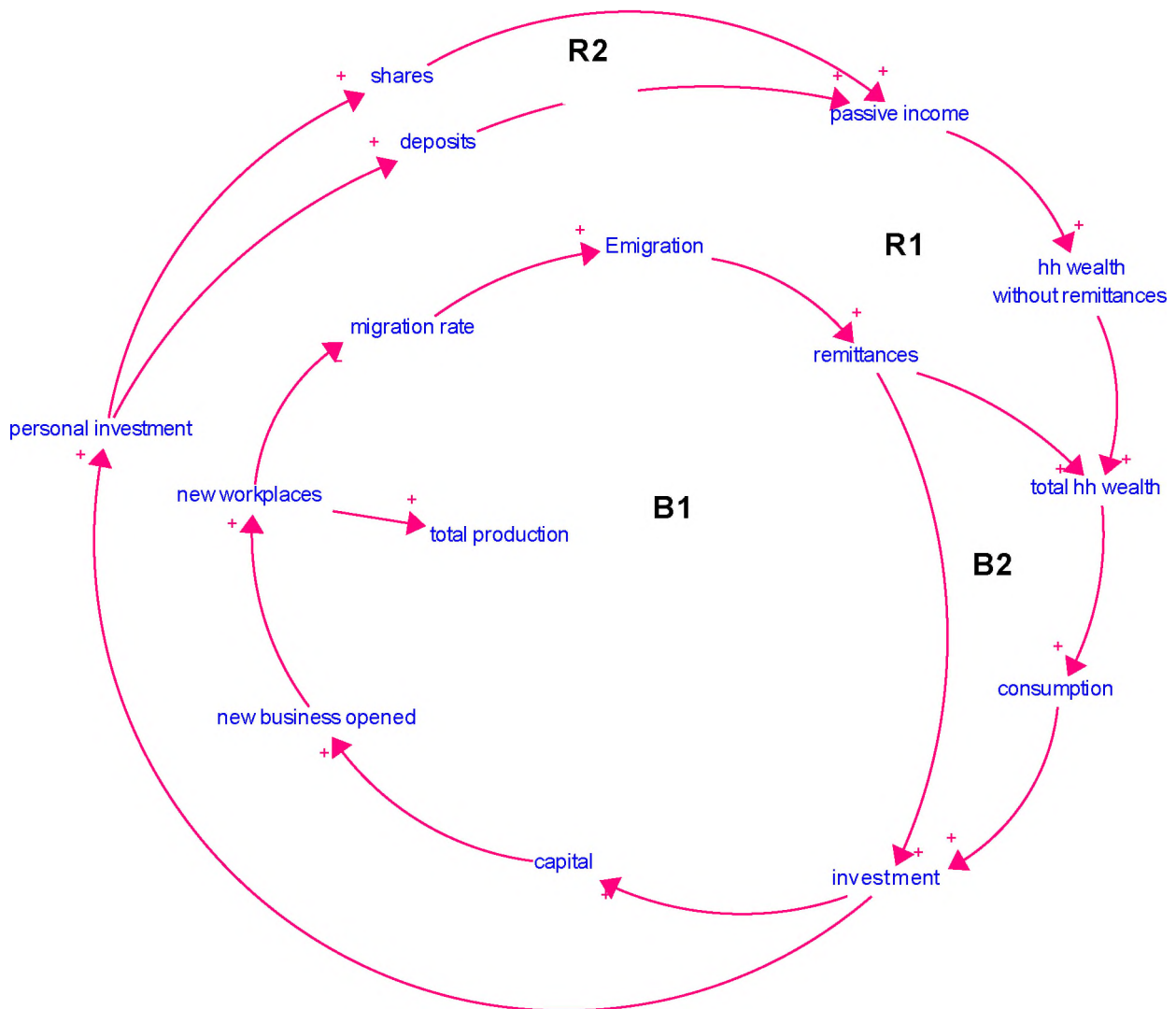
Remittances from migrants are a huge stream of cash flows that settle largely in the countries of origin of these migrants. Therefore, next Figure shows the causal loop diagram created by the authors in Stella Architect that examines their impact on domestic economic performance and how it affects the well-being of the population as a whole.

The main goal of the recreation of those money flows is to explore the significance of them for business environment of small open economies like Ukraine and to analyze their importance to the overall enrichment of the population. Below two main hypotheses are listed, the confirmation or refutation of which the work will be assigned.

- The received remittances of migrants can be used as a tool of preservation in the country of origin. Due to the increase in deposit placements, local banks will have more available funds for lending, which will stimulate the demand for cheap loans. As soon as the availability of credits for the population increases, investment in small and medium-sized businesses will grow. This will contribute to the rejuvenation and development of markets by increasing competition with existing economic entities, in addition to increasing the income of the average citizen.

- Another way in which migrants remittances affect the economy is through consumption. By receiving additional funds, households can afford to consume additional goods and services, which will stimulate the profitability of goods production. This in turn will increase the attractiveness of the small business. Improving the investment climate in the country will stimulate domestic markets to develop and improve technology, which in turn will reduce unemployment in the country and increase wages.

To support the idea of remittances as an instrument for improving economic conditions, the system dynamics model was created. The causal loop diagram consists of 4 major feedback loops, which show the impact of remittances on business cycle and consumption. There are 2 balancing loops and 2 reinforcing loops, which can be seen of the figure 1.



**Figure 1. Causal loop diagram of migrant remittances influence model**

The explanation of connections inside the loops is presented in the table 1.

**Table 1. Main connections inside the causal loop diagram**

Name	Type of the loop	Explanation
<b>B1</b>	balancing	Remittances stimulate the higher investment in capital, which means that more small businesses will open, which will create more workplaces and as a result will lower the migration rate. Lowering the migration rate will make the emigrants number go lower, which will lead to lowering the remittances
<b>B2</b>	balancing	Remittances increase the household wealth which stimulates the consumption, and as a result consumption and demand for production, which will also stimulate more investment, which at the end will lead to increasing workplaces and lowering emigration and remittances.
<b>R1, R2</b>	reinforcing	Remittances stimulate not only business investment, but also personal investment, such as investment in shares and deposits, which means the increasing of personal income and household wealth produced without remittances.

The next steps of the study is to build a full-fledged model to track the dynamics of key indicators (investments and new registered businesses) during the simulation with increasing or decreasing migration factors. In addition, an analysis will be conducted that will show the interaction of indicators during the stabilization of cash flows and other possible positive effects.

The main stock and flow structure is presented in the figure 2. The model personal investment model was included as a “Personal investment” module connected to the main layer. The main model consists of 4 stocks, such as *Total Population*, *Total emigrants*, *Small Business Employment* and *Small Business Enterprises*. The employment and small business stocks do include all the people in employment and the number of enterprises in the country, but only the part which was created due to the increase of emigration and remittances. The main simulation results show that remittances stimulate the increase of consumption, investment (both capital and personal), which creates the possibilities for the growth of household wealth.



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## MODELING NATIONAL INCOME RESPONSE TO EXTERNAL SHOCKS IN UKRAINE

To provide valid academic researches or implement proper policy, it is crucial to understand the behavior of the economy as a complex model. In our work we discover the impact of expenditure shock on open economy Simple Keynesian Model.

Simple Keynesian Model is accessible for its straightforward structure. The basic equation used in our model consists of the following parts:

$E=Y$	E - expenditures, Y - national income
$E=C+I+G+NX$	C - consumption, I – investments, G – government spending
$NX=Ex-Im$	NX – net export, Ex – exports, Im – imports
$Yd=Y-Y*tx$	Yd - disposable income, tx – tax rate