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The Impact of Foreign Aid on Development and Aggregate Welfare in Developing Countries

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**THE IMPACT OF FOREIGN AID ON DEVELOPMENT AND AGGREGATE WELFARE
IN DEVELOPING COUNTRIES**

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Across the globe, over one billion people live in extreme poverty, struggling to survive on less than one U.S. dollar per day. Persistently low levels of development in developing countries has recently caught the attention of many politicians and social observers, prompting many to call on developed countries and multinational organizations to increase development assistance to these impoverished countries. However, would increased foreign aid effectively raise human development in developing countries? While many studies have analyzed the impact of development aid on economic growth in developing countries, fewer have addressed the impact of development aid on more comprehensive measures of development. Analyzing data on 88 developing countries from 1980 to 2000, this study employs two-stage least squares regression to evaluate the impact of foreign aid on the Human Development Index (HDI), a composite index of development, while controlling for the level of pro-poor public expenditure within a developing country. In addition, an interaction term between foreign aid and a measure of macroeconomic policies will be utilized to determine if economic policy has an impact on the effectiveness of development assistance.