

# Remittances, Migration, and the Small Open Economy

***Abstract:*** In the recent past we have observed an increasing movement of people from developing countries to more developed ones, and at the same time we have observed a significant increase in remittances flowing back to those labor exporting countries. A limited participation model is developed to account for these flows, endogenizing the allocation of labor between these two markets from the small open economy's perspective. The results show that an increase in the assimilation rate to the host country leads to reallocation of labor towards the foreign market and that a reduction in subsistence requirements abroad leads to reallocation of labor back to the domestic market. However, both events lead to an increase in remittances, showing that not only migration determines the level of remittances. Monetary and technology shocks are also introduced, and both present dynamics in accord to stylized facts but add information on migration and remittances flows.