

# **The Role of Behavioral Economics in B&H; Does Remittances and Foreign Aid Have Adverse Effect on Economic Development?**

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**Abstracts:** *Although the behavioral economics is subject of interest for over 50 years, it becomes fashionable again, as result of global crisis, to reassess the influence of irrational factors to economic development. B&H is exposed to constant crisis regardless to global one and it is hard to find rational explanations for many developments. At the same time there is no enough empirical findings and researches that would offer quantification of irrationality as well as intensity and correlation between some „usual suspects“ among variables that may have impact on economic development path. Generally speaking, B&H is not the only country that has complex administrative set up, even in regional terms. There are number of more developed countries that made such decisions on pure political basis still being very efficient in economic sense. B&H is also not only transition country that has to pass through structural reforms and make full turnover from economy reliance on big socialist companies to market economy based on smaller scale private ownership.*

*There are rational rules of economic models, there are experiences of transition countries, there are lessons learnt on how the political issues can be solved on still economically efficient way, so why the Bosnian case is so specific? Are there rational reasons or we shall seek for other type of explanations? Behavioral economics as a combination of psychology and economy aiming to find answers on market functioning in conditions where market players are exposed to limited human resources and there are specific complications in place. Well, this is precise and effective description of B&H market: the lack of entrepreneurial tradition combined with complex transition process and relatively low level of foreign direct investments that may be a shortcut in knowledge transfer. In identifying specifics aspects of behavioral economics and its impact on economic development in BiH qualitative and quantitative analysis of different aspects of the research problem has been done. It includes desk analysis of relevant literature, articles and papers, a comparative analysis of selected (comparable) developing and transition countries, analysis of interrelations between remittances and donor funds as dependent variable and economic indicators (GDP per capita, FDI inflows per capita) as independent variables. Theories used include Prospect theory, Disruptive Theory and Leapfrogging concept, while correlation and regression analysis of remittances / grants and economic development indicators are used in data analysis. Specifically, among developing and transition countries, those having major investors in private sector among domestic or neighboring countries have slower economic growth. In particular case of B&H, private sector development is in addition restricted by public sector dominance. The research therefore confirmed reverse relationship between grant funds and remittances and economic development, giving a valuable input in BiH context and need of public sector reform as a tool to boost private sector development.*

**Keywords:** *Behavioral economics, B&H, Public sector, Private sector, Economic development.*