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**LABOR MARKET OUTCOMES OF NON-MIGRANT MEMBERS  
IN RESPONSE TO REMITTANCES: EVIDENCE FROM  
PROVINCIAL CAPITAL OF PUNJAB AND KHYBER  
PAKHTUNKHAWA (KPK)**

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**Abstract**

This study analyses the effect of remittances on labor market outcome of non-migrant member of household living in two provincial capital cities of Pakistan. This study aims to expand the effect of remittances on labor supply of household's head and labor participation of non-migrant member of household. The labor participation of non-migrant member decompose in likelihood of participate in labor market and likelihood of participate in voluntary unemployment in response to remittances. For empirical analysis, this study used household survey conducted in Peshawar and Lahore. The sample size comprises 300 household having a migrant and data has been collected by using snowball sampling technique. This study uses Two Stage Least Square (2SLS) model due to potential endogeneity in remittances. For this purpose, characteristics of the migrant use as instrument to determine the amount of remittances. Furthermore, this study also use Tobit model to estimate the unbiased and consistence estimates. The estimates of the 2SLS and Tobit model suggested that remittances have significantly negative effect on the labour supply of household's head. This indicate the dominance of income effect which state that household substitute work for leisure. Furthermore, this study shows that remittances decrease the likelihood of participation in labor market and increase the likelihood of participation in voluntary unemployment for non-migrant members. This implies that presence of migrant in the household increases the reservation wage which keeps the non-migrant member of the household out of labour force.

**Keywords:** Remittances, Labour Supply, Labour Participation, Voluntary Unemployment

**JEL Classification:** J22, C24, F24.

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