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An Econometric Analysis of Jamaica's Import Demand Function with the US and UK

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Abstract


This paper investigates Jamaica's aggregate import demand function with the United States and the United Kingdom from January 1996 to September 2010 using co-integration analysis and error correction modeling techniques. Using real gross domestic product, relative price of imports, real foreign reserves and exchange rate volatility as our independent variables, evidence suggests a unique co integrating relationship between imports and its regressors in both the US and UK models. We also examine the short-run and long run elasticities in both models. In the case of Jamaica-US trade, we find that income has a lower and negative elasticity in the short run compared with the long run. Relative prices are three times as elastic in the short run than in the long run. Volatility is negative in the long run, but positive in the short run. Foreign reserves behave the same irrespective of time. Overall, change takes place much faster in the long run than in the short run. In Jamaica-UK trade, GDP, and volatility are less elastic in the short run than in the long run, but real foreign reserves and relative price adjust much faster. Moreover, in contrast to the long run, real foreign reserves and volatility are both negative in the short run. Tight monetary policy has had a significant impact in the short run only in Jamaica's import demand function with the UK, but not with the US.

Keywords: import demand, exchange rates, open economy growth, Jamaica

JEL Classification: F14, F31, F43, O54

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