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▶ Volume 38, Issue 8 ▶ Bilateral J-curve between the UK vis-à-v ....

Original Articles

Bilateral J-curve between the UK vis-à-vis her major trading partners

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Abstract

Currency depreciation is said to worsen the trade balance first before resulting in an improvement, yielding a short-run pattern labelled the J-curve phenomenon. While early studies tested the J-curve by using aggregate trade data, a few recent studies have employed bilateral data, mostly between the US and her major trading partners. In this paper we extend the literature by considering the experience of the UK. We test the phenomenon between the UK and her twenty major trading partners by employing data over 1973Q1–2001Q3 period. In most instances, we find no support for the J-curve in the short-run. In the long run, only in five cases has the exchange rate had significant impact on the bilateral trade balance.

Notes

[1] To find a rigorous analysis of this issue see Alexander ([1952](#)).

[2] Junz and Rhomberg ([1973](#)) support the delayed response by identifying five different lags: recognition lag, decision lag, delivery lag, replacement lag, and production lag.

[3] The trading partners include the UK, Canada, France, Germany, Italy, and Japan.

[4] The list of countries is same as Rose and Yelen ([1996](#)).

[5] For a review article see Bahmani-Oskooee and Ratha ([2003](#)).

[6] To have an overall idea about the UK the reader may visit the CIA website at http://www.odci.gov/cia/publications/factbook/geos/uk.html

[7] For an impact study of the devaluation of pound sterling in 1967 see Artus ([1975](#)). Artus ([1975](#)) uses a commodity level disaggregation to show the impact of devaluation on trade balance and trade flows for the UK.

[8] Cowitt ([1988](#)), p. 702.

[9] The ratio is used to make the measure of trade balance unit free (Bahmani-Oskooee, [1991](#)). For theoretical derivation of the reduced form see Rose and Yellen ([1989](#), pp. 54–55).

[10] All the estimations in this paper follow the manual of MFIT, Version 4.0 developed by Pesaran and Pesaran ([1997](#)).

[11] The critical values are taken from Case III, Pesaran et al. ([2001](#)), p. 300.

[12] However, the results are available upon request when we also use R bar squared and SBC criteria.

[13] The graphs for other countries are also available from the authors upon request.

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