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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 to test the J-curve hypothesis have employed data over 1970-1990, the significant impact of the J-curve phenomenon has been tested using data over 1970-2000. This paper will test the J-curve hypothesis using data over 1970-2000. The results show that the J-curve hypothesis is supported in the short run but not in the long run. The results also show that the J-curve hypothesis is supported in the short run but not in the long run. The results also show that the J-curve hypothesis is supported in the short run but not in the long run.

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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, χ^2 test is not applicable because the residuals are not normally distributed and SBC criteria are not applicable.

¹³ The growth rate of the UK is 1.5% per annum. The request.



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