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Original Articles

The J-curve in the emerging economies of Eastern Europe

Mohsen Bahmani-Oskooee Ma & Ali M. Kutan

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Abstract

Devaluation or depreciation of a currency worsens the trade balance before improving

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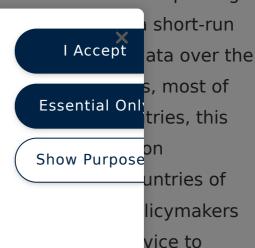
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Notes

- ¹ Following studies investigate the reasons for such appreciation: Kemme and Teng, 2000; Dibooglu and Kutan, 2001; Égert, 2002; Égert et al., 2002; Bulíř and Šmídková, 2005; De Broeck and Sløk, 2005. Égert (2003) provides a survey of this literature.
- 2 For a review of trade policy in transition economies, see Drabek and Brada (1998) and Hare (2000).
- ³ See Kočenda (<u>2001</u>) and Kutan and Yigit (2004, 2005) for evidence of price convergence in transition economies.
- ⁴ For a comprehensive review of the development in exchange rate policies in these economies, see Kočenda and Valachy (2005).
- ⁵ Some related work study pass-through of exchange rates to inflation rates in some selected transition economies (Billmeier and Bonato, <u>2004</u>; Coricelli et al., <u>2005</u>; Korhonen and Wachtel, <u>2005</u>).
- ⁶ 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).
- ⁷ We note that data on real effective exchange rates in transition economies is hard to obtain. In this article, we use CPI-based real effective exchange rates due to lack of uniform PPI-based real effective exchange rates for our sample countries. In his investigation of the equilibrium exchange rates of Bulgaria. Croatia. Romania, Russia,

Ukraine x d PPI. His el analysis, results o Égert (2 <u>2005</u>) uses real bila exchange rates ba ential bias hich include that I nsition. the in However iod. reflect Moreove

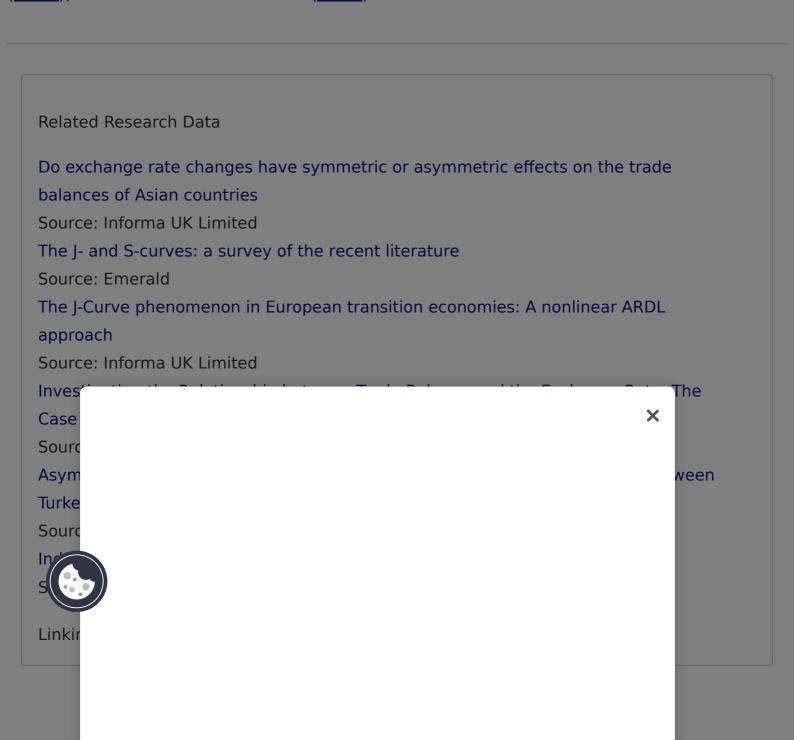
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- ⁹ Note that in most cases income variables carry significant coefficients signifying the importance of economic activity in influencing the trade balance.
- ¹⁰ Note that this new definition of the J-curve has also received empirical support by Bahmani-Oskooee and Ratha (2004b, 2004c) who considered the US trade balance with her 18 developed and 13 developing trading partners. They provided support for this new definition in a total of 18 cases.
- ¹¹ Other articles dealing with currency depreciation and trade flows for other countries include Briguglio, (1990); Cushman, (1990); Tegene, (1991); Buluswar et al. (1996); Rehman et al., (1997); Nachane and Randae, (1998); Miljkovic et al., (2000); Kyereme (2002); and Berument and Dincer (2005).



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