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Is there J-Curve effect in Africa?

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Abstract

The J-Curve is a term used to describe the post-devaluation behavior of the trade balance, i.e., initial deterioration followed by an improvement. Previous research has tested the J-curve hypothesis for several African countries, including Nigeria, Ghana, and Morocco. However, the J-curve hypothesis has not been tested for Morocco, and we test the hypothesis for Morocco. The data were obtained from the International Monetary Fund (IMF) database. The results show that the J-curve hypothesis is supported for Morocco. The J-curve effect is stronger for the short run than for the long run. The J-curve effect is also stronger for the real exchange rate than for the nominal exchange rate. The J-curve effect is also stronger for the current account than for the trade balance. The J-curve effect is also stronger for the manufacturing sector than for the services sector. The J-curve effect is also stronger for the private sector than for the public sector. The J-curve effect is also stronger for the export sector than for the import sector. The J-curve effect is also stronger for the manufacturing sector than for the services sector. The J-curve effect is also stronger for the private sector than for the public sector. The J-curve effect is also stronger for the export sector than for the import sector.

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Notes

1. This definition would only be true if the trade balance and the real exchange rate are defined in a way that a positive relation between the two reflects an improvement in the trade balance due to real devaluation or real depreciation.
2. Note that the Bounds testing methodology here closely follows Bahmani-Oskooee and Kara ([2003](#)) in this journal. See also Bahmani-Oskooee, Economidou, and Goswami (2005) and Bahmani-Oskooee, Goswami, and Talukdar (2008).
3. Note that if the increase in domestic income is due to an increase in the production of goods that are close substitute for imports, a country could import less. In this case the estimate of β could be negative. By the same token, an estimate of γ could be positive. For more see Bahmani-Oskooee ([1986](#)).
4. We also employed Schwarz Bayesian Criterion (SBC) in selecting optimum lags. There were no significant changes in the results.
5. For some examples of these studies on the elasticity approach see Agbola and Damoense ([2005](#)), Narayan and Narayan ([2005](#)), and Truett and Truett ([2000](#)).
6. A table is available upon request from the authors showing exact partners for each country.

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