International Review of Applied Economics ›

Volume 26, 2012 - Issue 1

Articles

Is there J-Curve effect in Africa?

Mohsen Bahmani-Oskooee & Abera Gelan

Pages 73-81 | Received 24 Mar 2007, Accepted 24 Jun 2009, Published online: 21 Nov 2011

Cite this article https://doi.org/10.1080/02692171.2011.619972

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 phenomenon for many developed and developing countries. However, African nations have not received any attention on this regard. In this paper, we test the hypothesis for nine African countries of Burundi, Egypt, Kenya, Mauritius, Morocco, Nigeria, Sierra Leone, South Africa, and Tanzania for which quarterly trade data were available. After using the bounds testing approach to cointegration and error-correction modeling, we were unable to find any support for the J-Curve.

Keywords:

Africa | the J-Curve | bounds testing approach to cointegration

JEL Classification:

F31

Acknowledgements

The valuable comments of two anonymous referees are greatly appreciated. Any remaining errors, however, are ours.

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.

Related Research Data

Determinants of international trade flows
Source: Journal of Development Economics
Currency Contracts, Pass-Through, and Devaluation
Source: Brookings Papers on Economic Activity
Devaluation and the J-Curve: Some Evidence from LDCs
Source: Review of Economics and Statistics
Time-series estimation of import demand functions for pulses in India
Source: Journal of Economic Studies
The J-Curve: a literature review
Source: Applied Economics
Bounds testing approaches to the analysis of level relationships
Source: Journal of Applied Econometrics
Statistical analysis of cointegration vectors
Source: Journal of Economic Dynamics and Control
Co-integration and Error Correction: Representation, Estimation, and Testing

Related research