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INCOME AND PRICE ELASTICITIES OF TRADE: Some New Estimates

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Abstract

With introduction of new estimation techniques, old theories receive a renewed attention and on this regard, trade elasticities are no exception. In this paper we employ a new cointegration technique, i.e., ARDL approach to cointegration that does not require pre-testing for unit root and estimate income and price elasticities of import and export demand for 28 countries. The results indicate that price elasticities in most instances are high enough to conclude that real depreciation could improve the trade balance.

Notes

Critical v[...]nd critical values at 90% significance level are 2.425 and 3.574. The comparable figures when a constant and a trend are included are 3.063 and 4.08.

[A] Indicates cases in which both an intercept and a trend are included in the ARDL model.

[1]Note that we included a constant and a trend in both models. Whenever the trend was insignificant, it was excluded.

[2]The full information estimates of each model is available from the authors upon request.

[3]The exceptions are South Korea and Turkey for which data end in 1997III.