

J-Curve Estimation: An Empirical Analysis at Product Level

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Abstract

After the depreciation of the domestic currency, the exports of the country increases and the imports decreases, but only after a period of time. Delayed reactions of trade to exchange rate are important to explain trends in current account balance. This paper examines the relationship between exchange rate and trade balance in Turkey. We aim to show how trade balance reacts to exchange rates by using a monthly data at product level. Monthly data allows us to capture duration of delay better than quarterly or yearly data. On the other hand, the product-level nature of our dataset allows us to control for heterogeneities of exchange rate reactions to trade among different types of goods. We find that J-effect does exist in specific sectors and the duration of the effect changes among industries.

Keywords: j_curve, trade balance, exchange rates

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