M. MURAT

GROWTH, TRADE AND UNEMPLOYMENT

ABSTRACT

How are countries’ long run growth rates and employment levels affected by the international specialization of production? This paper presents an endogenous growth model where goods are produced in “modern” and “mature” sectors, which differ in the rate of knowledge accumulation and in the degree of inputs’ substitutability. The services of labor are crucial for producing the modern goods, whereas in the traditional industries workers are gradually replaced by capital. With trade, economies specializing in the modern productions have full employment and high growth rates, while countries specializing in the mature industries experience low growth and steady-state unemployment.

JEL Classification: O41, E24, F12, D2
ABSTRACT

The study analyses the long run equilibrium and short run dynamic relationship among real exports, real imports and real income in India for the period 1951-52 to 1995-96. The long run relationship is examined using both the Engle-Granger (1987) two-step and the Johansen (1991) maximum-likelihood systems estimators. The short run relationship is analysed and the hypothesis of Granger non-causality is tested by estimating a dynamic VAR model. A more recent estimator based on level VAR developed by Toda and Yamamoto (1995) is also used to test the hypothesis of Granger non-causality. The study does not find any evidence for the presence of cointegrating relationship among the variables. The study supports the presence of a short run dynamic relationship with unidirectional Granger causality flowing from imports to exports and from exports to income.

JEL Classification: F10, F12, F43, O40, O41
EVALUATING THIRLWALL’S LAW: DOES COUNTRY SIZE MATTER?

ABSTRACT

Thirlwall’s law of balance-of-payments-constrained growth predicts that an economy’s growth rate is determined by the ratio of its income elasticities of demand for exports and imports, multiplied by the world’s growth rate. Alexander and King (1999) argue that the typically supportive empirical results found for this relationship are based on a flawed testing procedure. They find little support for Thirlwall’s law among the G7 nations using an alternative, cointegration-based approach. This study aims to see whether Alexander and King’s (1999) conclusions hold for smaller, more open economies. We find that, in most cases, they do.

Keywords: Thirlwall’s law, growth, balance of payments
JEL Classification: F43
The paper provides an explanation of the mechanisms underlying trade roots of the contagion effects emanating from the recent turmoils. It is argued that under demand uncertainty risk averse behavior of firms provides a basis for international trade. The paper shows by means of a simple two-country model that risk averse firms operating in perfectly competitive markets with uncertainty of demand tend to diversify markets what gives a basis for international trade in identical commodities even between identical countries. It is shown that such trade may be welfare improving despite efficiency losses due to cross-hauling and transportation costs. The analysis reveals that change of the expectations concerning market conditions caused by the turmoil in the neighbor country (i.e., shift in the perception of market conditions) may lead to macroeconomic destabilization (increase in price level and unemployment, worsening of terms of trade, and deterioration of trade balance).

Keywords: Crises propagation, contagion, reasons for trade, intra-industry trade, demand uncertainty, risk aversion, market diversification
JEL Classification: F3, F4, F100, D800
INTRA-INDUSTRY TRADE AND INTERNATIONAL PRODUCTION IN THE ITALIAN MANUFACTURING SECTOR: A CASE FOR TESTING THE THEORY

ABSTRACT

Taking into consideration the Italian manufacturing sector, the main purpose of this paper is to test some predictions arising from models with monopolistic competitive market. In particular, we want to investigate the two following issues. First, to what extent intra-industry trade and international production are related among each other. Second, to what extent the cross-industry variation of intra-industry trade and intra-industry production ratios is related to similarities in both absolute and relative factor endowments on the one hand, and to local technological conditions on the other.

JEL Classification: F13, F23
Factors determining United States’ trade balance with Italy (NE) are examined, and tests for long run relationships performed. Results suggest the main determinant of NE is the output ratio, followed by the price ratio, real exchange rate, lending rate ratio, and the money supply ratio, which explain 95% of the variation in NE. NE responds to rising and falling exchange rate regimes asymmetrically if intercepts change, leading to a premium in NE of $1,093.23 due to falling exchange rates. NE and its determinants are cointegrated at 1%, NE and the nominal exchange rate are cointegrated at 1%, but NE and the real exchange rate are cointegrated at 5%. The nominal exchange rate and the price ratio are cointegrated at 1%, suggesting long run purchasing power parity. The estimated model may monitor and predict NE.

Key words: exchange rate, GDP, Italy, lending rate, money supply, trade balance, United States.

JEL Classification: F10, F14, F17