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REAL EXCHANGE RATE EFFECTS ON THE TURKISH TRADE BALANCE

Abstract:

A large number of studies have examined the relationship between the trade balance and the exchange rate, focusing on whether depreciations improve the trade balance in the long run and whether this effect is different in the short run. In general, it is argued that the short run effect of currency depreciation is to worsen the trade balance, but this is reversed in the long run; thus, producing the J-curve shape. The aim of this study is to investigate the short run and long run effects of the real effective exchange rate on the trade balance of Turkey and to infer whether Marshall-Lerner condition and J-curve effect exist. To do that, monthly data covering the period 2003:M1-2017:M3 is used. The relationship between variables is estimated using autoregressive distributed lag (ARDL) model, and Bounds test is applied to examine the existence of a long run relationship. Overall results are in favor of a long run relationship and suggest that Marshall-Lerner condition is satisfied. No evidence is found supporting J-curve effect.

Keywords:

ARDL Model, J-Curve Effect, Marshall-Lerner Condition, Real Effective Exchange Rate, Trade Balance

JEL Classification: C22, C51, F14