

A B S T R A C T

This thesis is concerned with the role that foreign trade has played in the growth process of the Jamaican economy during the period 1954-72. The analysis is restricted mainly to an econometric investigation of the determinants of commodity trade. The principal contribution of this thesis deals with the formulation and estimation of an econometric model; as well as an analysis of the impact of devaluation on commodity trade and on the balance-of-payments. The empirical results re-confirm that OLS is an appropriate technique to estimate price and income elasticities in international trade for a small country.

Inclusion of a dummy variable in the traditional import demand equation to isolate the impact of the 1967 devaluation was found, like the Chow test, to be predominantly statistically insignificant. The empirical estimates revealed that the Marshall-Lerner condition was fulfilled, but the continued deterioration of the balance-of-payments subsequent to the devaluation is largely due to increases in domestic credit creation and other import substitution policies. Disaggregation led to better and more reliable elasticity estimates, while aggregation had the effect to produce a downward bias in the price elasticity estimates. The stock adjustment hypothesis proved to be dominant compared with the habit formation one.

On the export side our study revealed that the short run price elasticities of supply were significant but low; whereas, the long-run supply price elasticities were greater than one. The speeds of adjustment

in the export sector were mainly slow. In the case of the export elasticities of demand both the price and income elasticities of demand were also inelastic, except tourism.

Finally, the study makes a positive contribution to the limited stock of economic statistics by constructing detailed indices relating to prices and quantity of imports and exports respectively for the period under investigation.