

Documents

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Empirical investigation of import-demand function of Saudi Arabia

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Abstract

This research paper investigates the real import-demand function for Saudi Arabia using Johansen's co-integration method. The result shows that there is a short and long-run equilibrium relationship between real imports and macroeconomic variables. In the short run, this study finds a significant relationship between real imports and income, foreign exchange rates and foreign exchange reserves; real income was found to be inelastic in respect of all the variables in the short run. In the long run, real imports are found to be elastic with respect to income and foreign exchange reserves and inelastic with respect to foreign exchange rates. The evidence suggests that appreciation or devaluation of the local currency may not give desirable results for the economy as far as controlling the import volume is concerned. The diversification of export base and less reliance on foreign inputs would be a better option to avoid possible trade deficits in the future. Copyright © 2012 Inderscience Enterprises Ltd.

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