



Department of
Economics and Finance

Working Paper No. 12-22

TESTING THE MARSHALL-LERNER CONDITION IN KENYA

Guglielmo Maria Caporale
Centre for Empirical Finance, Brunel University, London, UK

Luis A. Gil-Alana*
Navarra Center for International Development,
University of Navarra, Pamplona, Spain

and

Robert Mudida
Strathmore University, Nairobi, Kenya

September 2012

Abstract

Keywords:

JEL Classification:

Corresponding author:

1. Introduction

2. The Marshall-Lerner condition and the Kenyan economy

3. Theoretical Framework

$$= \text{—————}$$

$$= - - (- +) = - -$$

$$= - +$$

$$= \alpha + \beta + \eta + \gamma$$

$$= \alpha + \beta - \eta + \gamma$$

$$= \alpha - \alpha + \beta - \beta + \eta + \eta - + \gamma - \gamma$$

$\sqrt{\quad}$ $\rightarrow \infty$

$$= \frac{-}{-} - \frac{-}{-} + \frac{-}{-} = \approx \tau = -$$

$$= \frac{-}{-} - \frac{-}{-} + \frac{-}{-} = \approx \tau =$$

$$= \frac{-}{-} - \frac{-}{-} + \frac{-}{-} = \approx - + \varepsilon$$

$$= \alpha + \beta + \beta +$$

5. Conclusions and Policy Recommendations

Economics Letters

The Journal of Developing Areas

International Economics Practicum

Journal of Econometrics

Kenya: Policies for Prosperity

Annals of Statistics

Figure 1: Original series and first differences

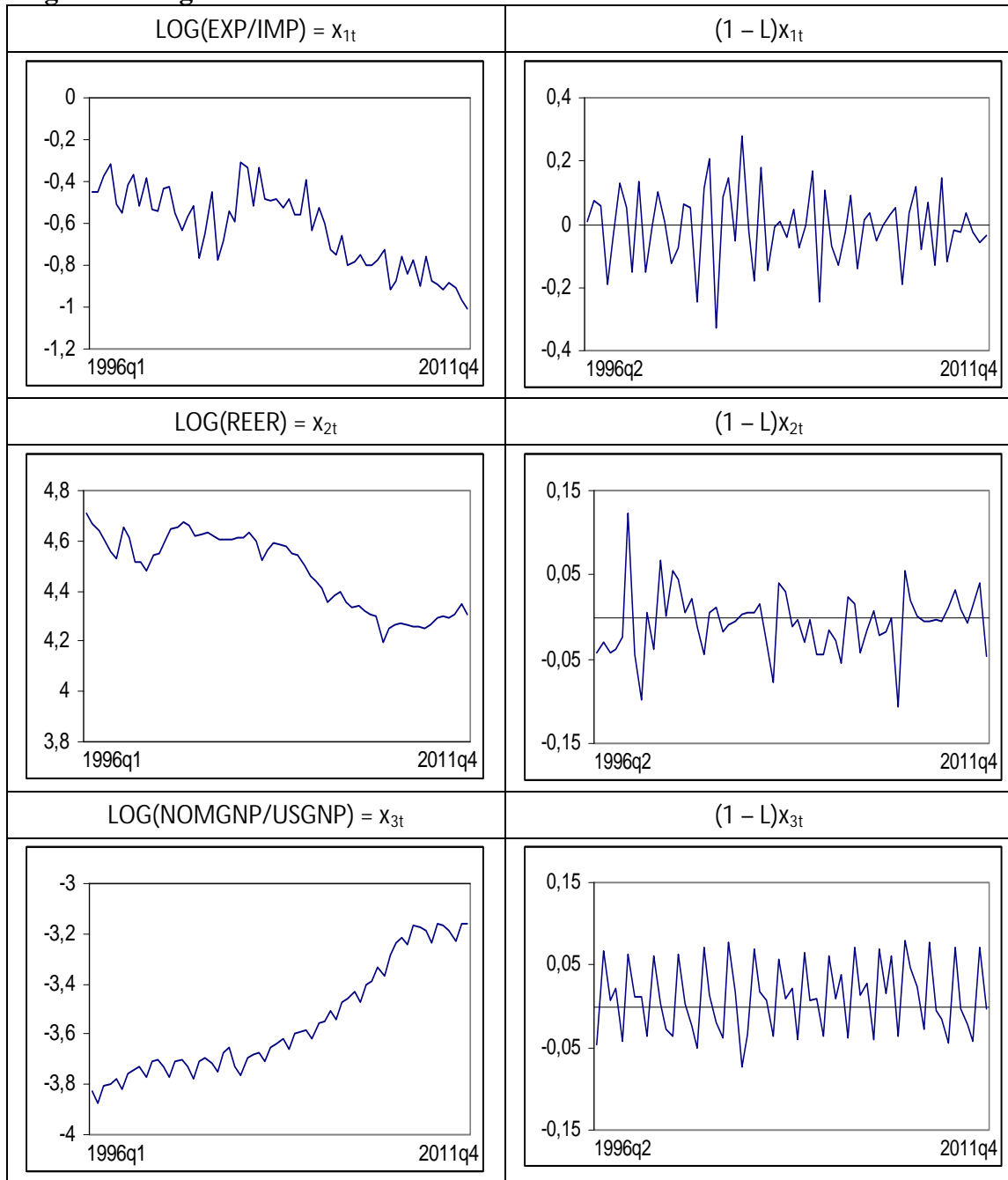


Figure 3: Periodograms of the original series and first differences

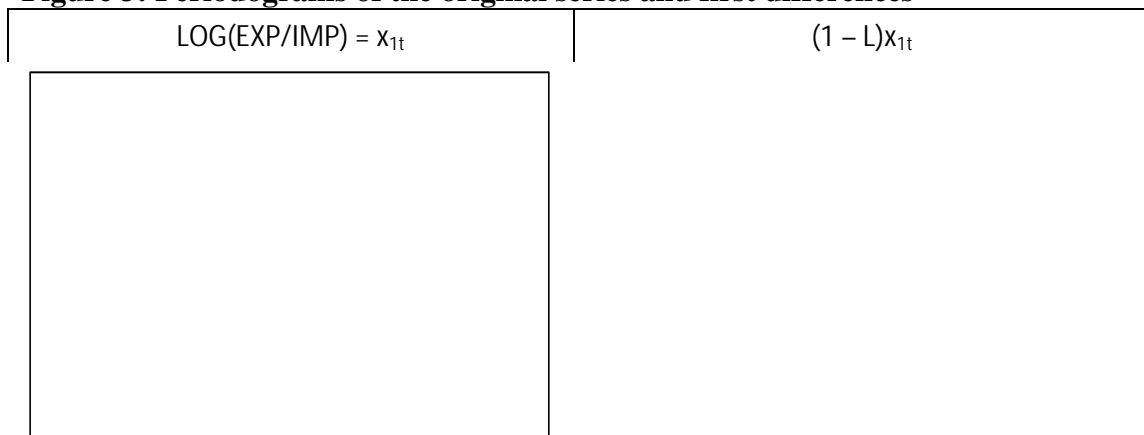


Table 1: Estimates of d and 95% confidence bands for the three individual series

i) White noise disturbances			
	No regressors	An intercept	A linear time trend
LOG(EXP/IMP)	0.511 (0.372, 0.714)	0.493 (0.413, 0.605)	0.373 (0.258, 0.536)
LOG(REER)	0.934 (0.787, 1.148)	0.883 (0.742, 1.129)	0.888 (0.740, 1.129)

Figure 4: Estimates of d and 95% confidence bands for the three individual series

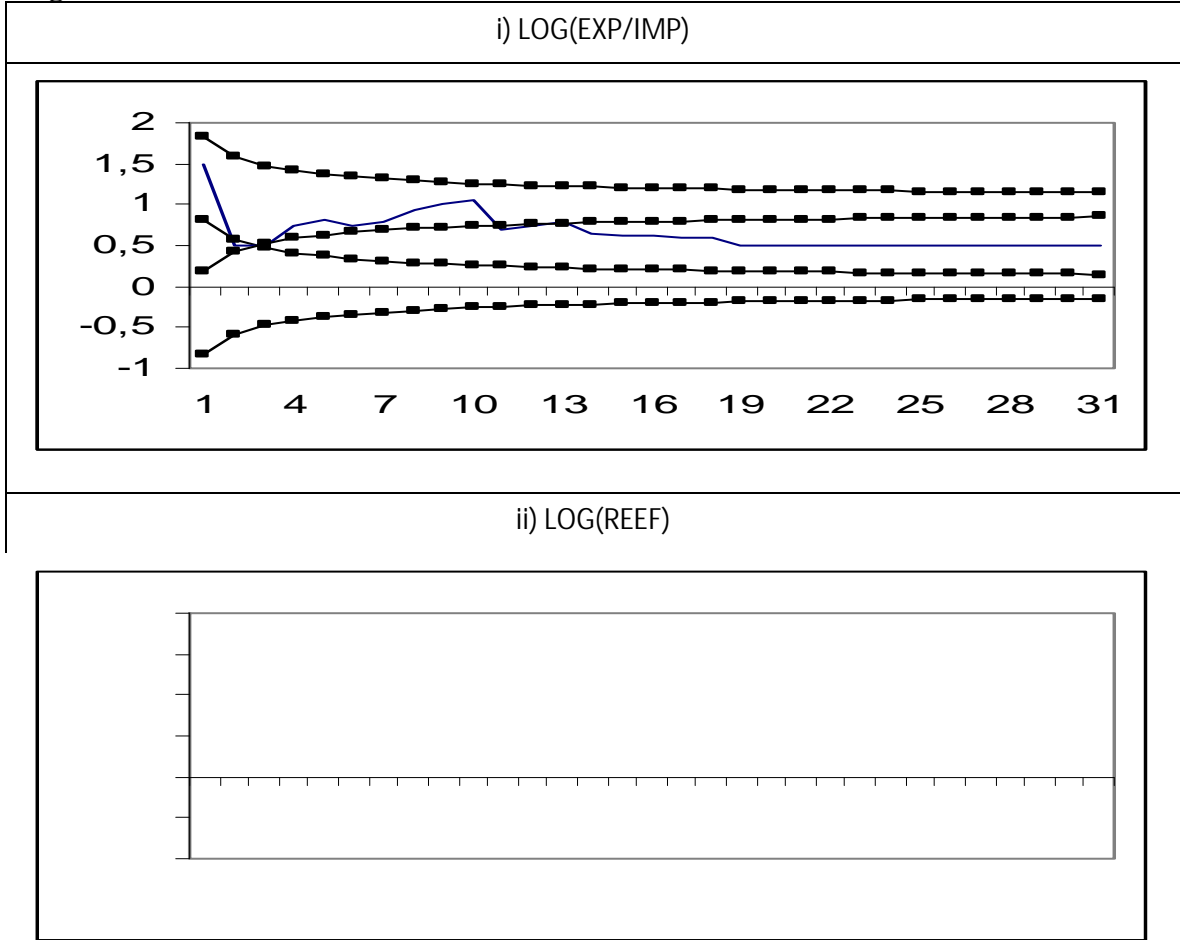


Figure 4: Estimated residuals from the cointegrating regression

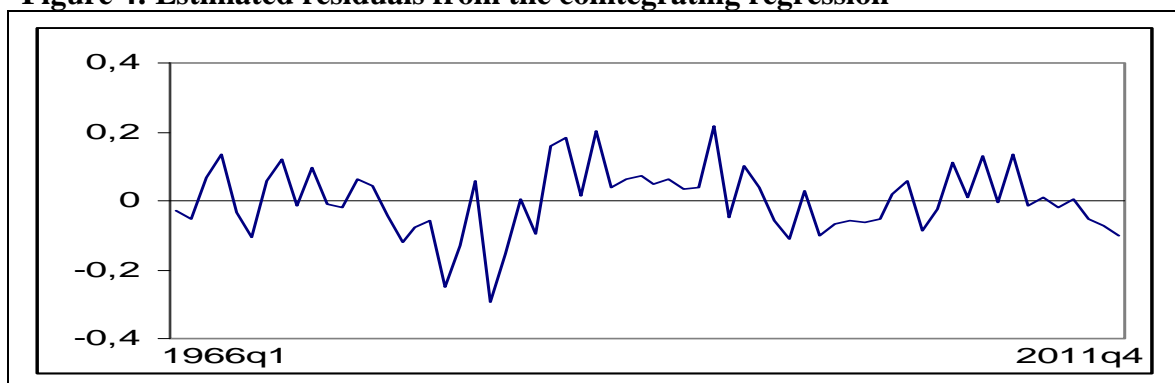


Table 2: Estimates of d and 95% confidence bands for the three individual series

i) White noise disturbances			
	No regressors	An intercept	A linear time trend
White noise	0.239 (0.089, 0.435)	0.239 (0.089, 0.434)	0.241 (0.091, 0.436)
Bloomfield	0.255 (0.046, 0.575)	0.258 (0.050, 0.579)	0.259 (0.048, 0.579)
Seasonal AR	0.244 (0.072, 0.453)	0.244 (0.071, 0.452)	0.246 (0.072, 0.455)