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**TITLE: REAL EXCHANGE RATE AND TRADE BALANCE RELATIONSHIP UNDER THE CONFIDERATION OF MARSHALL – LERNER CONDITION: THEORY AND APPLICATION TURKEY**

## **ABSTRACT**

In the literature, relationships between balance of trade and variability of exchange rates were analyzed by estimating the Marshall – Lerner condition. According to the Marshall-Lerner, the sum of the price elasticity of demand for imports and price elasticity of demand for exports should be higher than 1 in order to expect a curative effect of devaluation on foreign trade balance. In this study, the relationships between balance of trade and variability of exchange rates were analyzed empirically in Turkish economy for 1950-2006 periods. In the light of empirical results which were found by estimating cointegration and error correction analyses, it has been shown that devaluations help improving the trade balance in the short and long run and Marshall-Lerner condition were provided. According to error correction model, did not find any evidence for the presence of the J-Curve effect on the balance of trade in the short run.

## **KEY WORDS**

Balance of Trade

Devaluation

The Marshall – Lerner Condition

Turkey

Exchange Rate

Cointegration Analysis