

AN EVALUATION OF THE UNITED STATES' TRADE BALANCE WITH SELECTED TWO COUNTRIES INCLUDING A DEMOGRAPHIC VARIABLE

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The purpose of the research study is to estimate the determinants of the USA's trade balance with Australia and Germany including a demographic variable and testing the relationships in the long run. Engle – Granger test showed a weaker relationship between Australia's import share and GDP ratio. Also, it showed a positive long run relationship between net exports (NE) and exchange rate (ER). USA and Australia regression showed that the most important determinant of net export is the GDP ratio, followed by the price deflator ratio, money supply ratio, lending rate ratio and the real exchange rate, which explains 89.7% of the variation in net exports. USA and Germany regression showed that the most important determinant of net export is the real exchange rate, followed by GDP ratio and youth dependency ratio which explains 76.9% of the variation in net exports. We run F – Test, that net exports depend on rising and falling exchange rate regimes for both pairs. Results based on the error correction model (ECM) suggest that there exists a positive long-run relationship between the expected exchange rate (ER) and the USA's net export (NE) at a 5% level of significance, for both pairs of countries.

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