
Abstract No: ASRS 19

ANALYSING RELATIONSHIP BETWEEN IMPORT AND EXPORT OF SRI LANKA USING VECTOR AUTOREGRESSIVE APPROACH

N.N. Mayazir* and A. Jahufer

Department of Mathematical Sciences, South Eastern University of Sri Lanka

nmayazir@gmail.com

Sri Lanka is a developing country. The trade plays an important role in the economic growth of a country. Basically, economic growth of a country depends on the nature and type of relationship between trade and domestic economic growth. Economists use the balance of trade as a statistical tool to understand the relative strength of a country's economy versus other countries' economics and the flow of trade between nations. It is the largest component of the country's balance of payments. The trade balance is the difference between a country's imports and its exports for a given time period. This study was aimed to analyse the relationship between import and export of Sri Lanka during the period of 1960 to 2015. The stationarity of the variables was checked by applying Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests. Modern econometric techniques such as Vector Auto-Regression (VAR), Impulse Response Function (IFR) and Variance Decomposition were applied to determine the long-term relationship between export and import. Empirical results from impulse response function and variance decomposition confirm the existence of the positive relationship between import and export of Sri Lanka. The shock to export can cause the fluctuation in import and shock to import can also cause the fluctuation in export. But comparatively the variance contribution of import to export is higher than the variance contribution of export to import.

Keywords: *Impulse response function, Sri Lanka, Vector auto regressive, and Variance decomposition.*

* Corresponding Author