Will Depreciation of The Dollar Decrease the U.S. Trade Deficit?

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Abstract: Using data on exchange rates, imports and exports, income, and relative price between the US and its major trade partners, I applied regression analysis to determine whether there is a connection between a weakening of the US dollar and an increase in US exports. I studied the price elasticity and income elasticity for both the short run and long run. The key hypothesis is that the gains in US exports to its top trading partners due to a weaker dollar will be offset by decreased income from exporting to the US. The results indicate that in the long run 3 of the 5 US trade partners examined do not meet the Marshall Lerner condition, supporting the hypothesis, which will diminish the hope of improving the U.S. trade deficit.

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