

## **Estimating the J-Curve of Canada: Then and Now**

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This empirical study explores the relationship that exists between currency valuation and the current accounts position of Canada. Changes in the exchange rates are known to have short run and long run effects on the trade balances. To ascertain the magnitude of the J-curve and the period it takes for the effect of the currency value changes to be felt on trade adjustments, the bilateral relative prices of Canada with their major trading partners were estimated using the polynomial distributed lag scheme to determine their effect on the trade ratio of Canada from 1982Q1 – 2016Q4. The results shows that the Marshall-Lerner condition was fulfilled and there was a long run improvement in the net exports situation. Decomposing the sample into two time periods however, yielded conflicting results with the first sample showing no evidence of the phenomenon while the second sample had a clear J-curve effect. This leads us to the conclusion that currency depreciation in the 1980's and 1990's may not bring about a trade balance improvement while it is expected to in the subsequent period.