

ANALYSIS OF IMPORT DEMAND *

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For any country embarking on the path of planned economic development, foreign exchange is undoubtedly one of the most important scarce resource. For the purpose of an adequate planning effort, it is, therefore, necessary to analyse the factors which determine the demand for imports. It is necessary because the study of the effect of planned growth on the balance of payments is an important precondition for any effective regulation of this vital sector. For this purpose, it is not enough to test only the existence of any causal connection between the level of imports and some demand factor; it is also necessary to measure the strength of the relation also. With this requirement in mind we have attempted to formulate mathematically the relations considered and statistically test them.

The mechanism of international payments is of course a combination of a large number of causal connections and the import demand equation explaining imports by some demand factor for imports is only one of those connections. Our analysis therefore meets only a part of the requirements for a complete study of the problem. When we limit our task thus, we are faced with the fundamental difficulty of extricating a particular causal relation from observations of interrelated movements. Actual movements of any economic variable are not only caused by changes in one explaining variable but also by changes in some other variables and we have to take care of them all in order to test the existence and measure the strength of the causal connexion we are interested in. We should therefore be somewhat cautious in interpreting the results of our testing.

The demand factors usually considered important are prices and incomes. The appropriate analysis for each of these factors can be undertaken separately under usual assumptions. In what follows, an attempt is made to analyse the role played by income as a demand factor. Here it is possible to take either nominal income or real income as the explaining variable. Similarly for the variable to be explained, i.e. imports, we may take either the value of imports or the volume of imports. Taking only money values for both, we can formulate the equation

$$M = A + BY \quad (1)$$

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