

ELASTICITIES OF DEMAND FOR IMPORTS DURING THE PERIOD 1920-21 TO 1929-30

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VINER¹ lists out some of the sources of downward bias, that are likely to be present in the estimation of price-elasticities of demand. In the first place the data should be adjusted for long-term and cyclical variations in the demand function. Trends in the import demand may follow much more faithfully trends in domestic economic activity than price-level fluctuations. In cyclical situations prices and demand are more often positively associated. Secondly, when there is time-lag between orders and deliveries, prices should be associated with orders rather than deliveries. Prices may be higher in the first period than in the next, and accordingly, orders may be less in the first period. If goods are delivered in the next period and prices associated with deliveries of the same period, price-elasticities may be biased towards zero. Third, quantities may be associated with prices of the same period if consumers, within the same unit of time, can fully accommodate new price changes and if they do not expect price reversals in the immediate future. The price-elasticity of demand is likely to be greater the greater the adjustment of consumption habits to new prices and the greater the period allowed for the assimilation of new processes of production. Last, but not least, price-elasticities of demand for individual commodities may be low but nevertheless the price-elasticity calculated for all the commodities making up a composite Hicksian commodity may be high.

Viner observes that the increase in money incomes will tend to act in the direction of import stimulation in a largely similar manner whether the increase in money incomes is associated with favourable terms of trade, or with rising levels of employment. To the extent that changes in money incomes are not considered, the equilibrating forces underlying the mechanism of international trade are not adequately explained, and the possibility of liquidity-induced imports is grossly undermined.

Viner argues that income elasticities of import demand tend to be exaggerated if cyclical fluctuations in income and demand are not taken care of. In a depression where prices touch the rock-bottom level the foreign producer may cut down the scale of operations and may not be

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