

EconWorld2014@Prague

Disaggregated Armington Elasticities for Agricultural Sectors of EU and Turkey

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ABSTRACT

The substitution elasticity between agricultural goods from different countries (Armington elasticities) is of special importance for many trade models. Note that the elasticity of substitution captures the degree of substitutability between import sources of supply. The so called Armington elasticities are key parameters for most of the partial or general equilibrium based trade models because of their critical role in determining model results. The higher the value of this parameter, the higher the degree of substitution. A high value of elasticity of substitution implies that imports from different areas are considered by consumers to be approximately identical. They would be exactly identical if the parameter was infinite which is the case of perfect substitution. On the other hand, a low value for this parameter points out that the two products are weak substitutes. In This study, the substitution elasticities (Armington elasticities) for agricultural goods of EU and Turkey will be estimated by Panel data estimation techniques. The data includes both Turkey's and EU's agricultural trade data and for the domestic consumption of agricultural products the FAOSTAT data will be employed. In the model, 27 regions are defined in order to differentiate regional impacts.

KEYWORDS Elasticities of Substitution; Armington Elasticities; Fixed and Random Effect Panels

JEL C50, F15, F17, Q17