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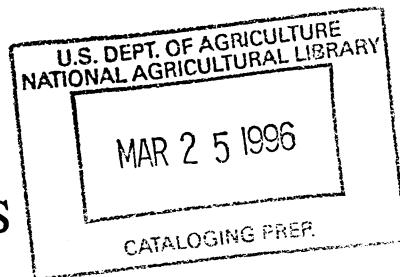
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THE EFFECTS OF EXCHANGE RATE RISK ON AGRICULTURAL  
IMPORTS OF DEVELOPING COUNTRIES:  
THE CASE OF TRINIDAD AND TOBAGO

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This study examines the effect of real exchange rate risk on the demand for agricultural imports by developing countries. Quarterly imports of wheat and corn by Trinidad and Tobago from 1974 until 1987 are used to develop specific, as well as more general assessments of the impact of real effective exchange rate risk on trade by developing nations. Although Trinidad and Tobago's exchange rate was pegged to the U.S. dollar, thus eliminating nominal exchange rate risk, the effects of real exchange rate uncertainty can still be analyzed.

The model used in this study is an adaptation of Cushman's model. It has been modified to incorporate the influence of financial constraints on import decisions faced by many developing nations by including foreign exchange levels. The model includes real domestic income, real foreign exchange, the real relative prices of wheat or corn, seasonal dummy variables, and approximations for the expected value and standard deviation of real exchange rate changes.

The results for the corn equation indicate that foreign exchange reserves have a positive influence on imports, but income (GNP) does not play an important role in corn import decisions. In addition, real corn prices and the approximation of real exchange rate risk exhibited negative influences on corn import demand. The coefficient for the expected value of the real exchange rate changes was not statistically significant.

The results for the wheat equation indicate that foreign exchange reserves have a positive influence on imports, but income (GNP) does not play an important role in corn import decisions. However, the wheat price coefficient was not statistically significant. The approximation of exchange rate risk exhibited negative influences on wheat import demand. The coefficient for the expected value of the real exchange rate changes was positive and statistically significant.