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Determinants of imports demand in Tanzania

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The main objective of the study is examining the determinants of aggregate import and major components covering the period 1970-2002 . Three major hypotheses have been tested: One, demand for real import is a positive function of real income. The logic behind this hypothesis is that as a country's income rises, its capacity to import increases. Two, foreign exchange availability has a positive impact in import demand as it help to bridge the gap between imports and foreign exchange shortfall. Three, exchange rate has negative impact on import demand. To estimate demand the elasticity's for aggregate import demand and its major components, the study utilized an error correction model for both the short-run and the long-run. The results show that, foreign exchange availability and relative import prices are significant in explaining the growth of aggregate import demand in both short-run and the long-run. In addition foreign exchange and real income being significant to be major determinants in explaining the growth of disaggregate part of import in both long-run and short-run; whereas relative prices have been found to be so in the short run. The implication from these findings is that in order for the government of Tanzania to increase imports, its policies ought to be oriented toward export promotion. Furthermore, the results suggest that exchange rate policies could be used to influence imports in Tanzania.