

El Salvador and Economic Integration in Central America

An Econometric Study

Gabriel Siri

LexingtonBooks
D.C. Heath and Company
Lexington, Massachusetts
Toronto

Contents

	Figures and Tables	ix
	Preface	xiii
	Acknowledgments	xv
Chapter 1	Introduction	1
Chapter 2	The Economy of El Salvador and the Integration Process	5
	Principal Socioeconomic Characteristics	5
	The Integration Process	7
Chapter 3	The Macroeconomic Model of El Salvador	11
	The Model of El Salvador	12
	The Central American Minimodel	12
	Consumption	13
	Investment	15
	The Manufacturing Sector	17
	Trade with Central America	19
	Imports from the Rest of the World	24
	Fiscal Revenues	28
	The Price Sector	28
	The Monetary Sector	29
	Appendix 3A: Equations of the Model of El Salvador	39
	Appendix 3B: Simplified Structure of the Central American Minimodels	51
	Appendix 3C: Glossary	53
	Appendix 3D: Econometric Models of Central America	63
Chapter 4	A Minimodel of the Central American Economies	65
	Characteristics of the Economies	66
	Structure and Suitability of the Minimodel	68
	Statistical Analysis	76

	Simulation of the Model	89
	Multiplier Analysis	90
	Appendix 4A: Estimated Results of GDP Equations Utilizing Almon Lag Distributions	113
Chapter 5	Performance of the Integrated Model	115
Chapter 6	The Effects of World Coffee Prices on the Central American Economies	123
	Coffee and Central American Economic Activity	123
	The Framework of the Analysis	127
	Changes in World Coffee Prices and Domestic Economic Activities	129
	Empirical Estimates of the Effects of Increases in World Coffee Prices	132
	Gains and Losses of a Price Stabilization Scheme	143
	Conclusions	159
	Appendix 6A: Simplified Model Structure of Effects of Coffee Exports on Employment and Income Distribution	167
	Appendix 6B: Price Stabilization and Optimal Allocation of Resources	171
Chapter 7	Other Applications of the Model and Policy Implications	173
	Estimating the Shadow Price of Foreign Exchange	173
	Effects of the Establishment of the Central American Common Market	180
	Effects of the 1969 War between Honduras and El Salvador	190
Chapter 8	Conclusions of the Econometric Analysis	201
	Index	203
	About the Author	207

Figures and Tables

Figures

4-1	Flow Diagram of the Country Minimodels (Guatemala)	69
6-1	Linkages Between the World Coffee Model, the Central American Country Models, and the Coffee Income-Employment Models	128
6-2	Effects of World Coffee Prices on the Economies of El Salvador and the Other Central American Countries	130
6-3	Supply and Demand Responses to Coffee Price Oscillations	146
6-4	Alternative Patterns of Price Variations	150
6-5	Hypothetical Supply-Constrained and Potential Output Growth Paths	155
6-6	Average Effects of Different Degrees of Oscillation of Coffee Prices around a Stabilized Trend Line on Production Variables of the Economy of El Salvador	156

Tables

2-1	Selected Population and Employment Data for El Salvador	6
2-2	Selected Production Data for El Salvador	7
2-3	Selected Social Indicators of El Salvador	8
2-4	Selected Trade Data for El Salvador	9
4-1	Subsystem of Equations Corresponding to the Principal Export Commodities of Each Central American Country to the Rest of the World	92
4-2	Subsystems of Equations Corresponding to the Exports of Each Country to the Rest of Central America, Its Total Exports, and Total Exports of Other Central American Countries	95