

## **Abstract**

This thesis aims to analyse the effects of the Central America Free Trade Agreement on trade using the gravity model. The principal actors of interest are the United States of America and Central American countries combined with Dominican Republic as the other regional actor. Panel data was used with 153 countries for the period of 1995-2015. The model was specified using the dummy approach and estimated with OLS and PPML estimators to obtain results on effects of trade policy variables on exports. Estimates show mixed results but the general effect of CAFTA on exports is positive and significant. This trade creation effect makes CAFTA an important trade agreement for economic relations between member countries.