INPUT-OUTPUT ANALYSIS

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INPUT-OUTPUT ANALYSIS

- Input-output analysis is a macroeconomic analysis based on the interdependencies between different economic sectors or industries.

- Input-output analysis is used to estimate the impacts of positive or negative economic shocks and analyses the ripple effects throughout the economy.

- The use of input-output analysis is not common in the Western world or neoclassical economics but often used in Marxist economics when central planning of an economy is required.

- Input-output tables are the foundation of input-output analysis, depicting rows and columns of data that quantify the supply chain for all of the sectors of an economy.

- These impacts on the economy are determined when certain input levels are changed.

INPUT-OUTPUT ANALYSIS ESTIMATES THREE TYPES OF ECONOMIC IMPACT

- DIRECT IMPACT
- INDIRECT IMPACT
- THE INDUCED IMPACT

DIRECT IMPACT

- The direct impact refers to the initial effects of changes in final demand or production within an industry.
- It represents the immediate changes in output, employment, income, and other economic variables resulting from a change in demand for goods and services produced by a specific industry.
- Direct impacts are directly observable and measurable within the industry experiencing the change.

INDIRECT IMPACT

- The indirect impact refers to the secondary effects that occur throughout the supply chain due to changes in demand or production in one industry.
- It captures the effects on upstream industries that supply goods and services to the directly affected industry.

- Indirect impacts are generated as a result of the interdependencies between industries within the economy.

- These impacts are typically estimated using input-output multipliers, which quantify the ripple effects of changes in final demand.

INDUCED IMPACT

- The induced impact refers to the tertiary effects that arise from changes in household income resulting from direct and indirect impacts.
- It reflects the changes in household consumption patterns and subsequent demand for goods and services.

- Induced impacts account for the spending behaviour of households as they receive income from directly and indirectly affected industries.

- These impacts complete the economic feedback loop by considering how changes in production and income affect consumer spending and, consequently, demand for goods and services across various sectors of the economy.

THANK YOU