Comparing Demand and Supply Multipliers: A Computable General Equilibrium Approach

Topic: Impact Analysis: Multipliers
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This paper presents an alternative methodological approach to compute demand and supply multipliers, by means of a computable general equilibrium (CGE) model. The analysis is applied to Extremadura, a small region located in the southwest of Spain. Demand multipliers are obtained by simulating demand increases in the foreign sector. Supply multipliers are computed by simulating productivity gains in each sectoral production technology. In both cases, we show the impacts on the main economic variables (prices, production and household welfare). This may allow to classify the key sectors according to these criteria. We also compare demand and supply multipliers to conclude if they show different information about the impact of the demand or supply exogenous stimulus considered. Given that the key sectors literature is traditionally limited to shocks in exogenous demand, our method can be considered novel in the sense that we take into account not only a demand perspective but also a production perspective. Our approach is useful to extend the knowledge about the sectoral ability to expand income and, additionally, it may suggest new conclusions for the economic and industrial policies.

TOPIC 25. Extensions in Multiplier and Linkage Analysis