

Some IO applications with complications

Topic: Methodological aspects of input-output analysis

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This chapter of my upcoming book on Input-Output Analysis deals with three types of applications of IO analysis that regularly appear in the literature without any consideration of their limitations, namely (1) regional and interregional forward and backward linkage analysis, better known as key sector analysis, (2) structural decomposition analysis, especially, of national and interregional economic growth, and (3) economic impact analysis, especially, of negative supply shocks caused by, for example, natural and man-made disasters. In all three cases, the standard approach is shown along with its problematic implications, such as presenting policy makers with only half of the truth in the first two cases, and producing misleadingly high multipliers in the last case. Of course, the necessary additions to and changes in the standard approach are indicated as well.