

## The Role of Supply Constraints in Detecting Keysectors

Topic: Key sectors and multiplier analysis

Author: Manuel Alejandro Cardenete Flores

Co-Authors: Ferran Sancho

### Abstract

Multiplier analysis based upon the information contained in Leontief's inverse is undoubtedly part of the core of the input-output methodology and numerous applications and extensions have been developed that exploit its informational content. Nonetheless there are some implicit theoretical assumptions whose implications have perhaps not been fully assessed. This is the case of the 'excess capacity' assumption. Because of this assumption resources are available as needed to adjust production to new equilibrium states. In real world applications, however, new resources are scarce and costly. Supply constraints kick in and hence resource allocation needs to take them into account to really assess the effect of government policies. Using a closed general equilibrium model that incorporates supply constraints, we perform some simple numerical exercises and proceed to derive a 'constrained' multiplier matrix that can be compared with the standard 'unrestricted' multiplier matrix. Results show that the effectiveness of expenditure policies hinges critically on whether or not supply constraints are considered.

Keywords: Key sectors, Economic linkages, Policy evaluation, Economy-wide modeling, General equilibrium.

JEL: C63, C68, D58