Structural analysis of the Indian economy in the conventional and augmented input-output frameworks

Topic: Various approaches to structural analysis
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The paper attempts to explore the structural changes of the Indian economy over the decade of the 1980's through 2006(7). Along with the Conventional Input-Output open model the structural relationships have been studied in an Augmented Input-Output framework. In the Augmented model the private consumption demand for the non-durable consumer goods is endogenised while the other components of final demand are treated as exogenous. The structure of the Indian economy has been studied by identifying the key sectors of the Indian economy using weighted backward and forward linkage measures. The results are found to be different in two models. The results based on the Conventional model reveal structural change towards more or less modern production structure of the Indian economy while those based on the Augmented model reflect traditional and service oriented along with modern industry oriented character of the Indian economy. The Augmented model shows fewer variations in the linkages and the resulting key sectors of the economy while rendering the economy traditional and service oriented along with a modern industry oriented character. The policy implications based on two models do differ. The results based on the Conventional method suggest the policies that would focus more on industrial sectors. On the other hand, Augmented model suggest that importance should be given to the traditional, service oriented as well as modern industrial sectors. Thus the Augmented input-output model seems to reflect better, the structural change of a developing country like India where different industries are not as interrelated as they are in a developed country. Thus, the choice of the method of structural analysis for an economy is an important research agenda in the literature on structural studies.