

A Modification in the Input-Output Price Model to Analyse the Effect of Exchange Rate Variation on Prices Indices

Topic: Prices in IO models

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The exchange rate affects the price of products through imported commodities consumed as intermediate or final consumption. The intermediate commodities that are consumed in production process affect the prices indices through production costs. Whereas, the final commodities that are consumed by households, government, investors or exported abroad, directly affect the prices indices. Due to differences in the effects of these commodities on the prices indices, these differences would be considered while calculating the price indices. This paper attempts to modify the current input-output (I-O) price models to investigate the effect of an exchange rate variation on the prices indices of products. To do so, an I-O table adjusting model in which the imported commodities are separated into intermediate and final consumption components is expanded to meet different cases of the real world economy. An example I-O table is employed to examine the model for different cases. The proposed model has some advantages over the previous ones. For instance, one advantage of the new model compared with the previous ones pertains to the differences between the intermediate and final consumption effects of the imported commodities on the prices indices.

Keywords: Exchange Rate Variation, Input-Output Price Model, Imports.