

An Approach to Measure the Effect of Invisible Subsidy Elimination on Prices Indices: An extension of Input-Output Price Model

Topic: Prices in IO models

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Plenty of invisible subsidies are paid for production process of countries. These subsidies generally emerge through buying the public resources such as gas, oil, and water for a lower price. Since these subsidies are generally paid for the prices of the intermediate commodities of one or some products, the elimination of these subsidies would lead to an increment in the price indices of these products. In contrast to other price models that measure the effects of an initial shock that generally originates from the value of primary factors or imports, the new model would consider the effect of a shock directly in the intermediate expenditures. To do so, this paper proposes an approach to measure the effect of invisible subsidy elimination on price indices of products. An input-output table adjusting price model is developed to meet this purpose. The model is implemented for different cases that an economy generally faces. In addition, some empirical examples illustrate the result of implementation of the model for these various cases. Hence, it is expected the proposed model enables the researchers to employ the input-output model in investigation on the effect of change in the value of invisible subsidies on products prices and inflation.

Keywords: Invisible Subsidy Elimination, Table Adjusting Price Model, Input-Output Analysis.