

The Debt Crisis as an Input-Output problem

Topic: Input-output analysis for policy making 7

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The main problem of debt crisis is the worldwide interdependencies of debtors and lenders. The best tool to analyze interdependency is Input-Output analysis. In this paper, the relationships underlying the debt crisis are modelled in an Input-Output-type model, with extensions to consider capital endowments of agents and the default probability. Then, common Input-Output analysis techniques could be applied to learn about many related issues, i.e.: the potential diffusion of the default or haircut of a single debtors ("diffusion effect"-backward linkages), the most potentially affected agents by the domino effect ("absorption effect"-forward linkages), the agents which are the most isolated from the danger (independent agents with low linkages), the most dangerous diffusion channels of defaults ("important coefficients") where it is the easiest to stop the domino effect, the changes in the situation ("fields of influence"), and so on.