

*”The Strengths and Limitations of Input-Output
Analysis in Evaluating Fiscal Policy”*

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Abstract:

The thesis addresses the recent debates on suitable macroeconomic policy and calls for an alternative evaluation and forecasting method of economic impact, by assessing the applicability of Leontief’s input-output model. We concentrate on providing an insight into the entire process of input-output analysis, which yields computation of simple input-output multipliers - output, gross value added and income multipliers. Thanks to the ability to capture linkages in the economy, computed multipliers are used as a tool to evaluate the effects of vehicle scrappage schemes and ICT infrastructure investment subsidies applied within a sample of diverse developed countries - Australia, Germany, Japan, UK and USA. We also aim to provide a sufficient explanation of the input-output model and a computation manual based on the example of the Leontief open model and calculation of simple multipliers. In our research, we numerically evaluate the effects of fiscal stimulus measures in the automobile industry and ICT sector and provide their comparison among 5 countries with different industry structures. Most importantly, the thesis provides a suggestion for policy makers to consider applying input-output analysis, as an alternative method, accounting for its strengths and limitations, when evaluating the effects of fiscal policy.