

Sectoral Output Growth Potential and Final Demand Structural Change: the Portuguese Case

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Abstract:

This paper deals with the implications of changes in the structure of consumption, investment and exports on the sectoral output growth potential of an economy. In the context of the input-output model the matrix of production multipliers (Leontief inverse) can be used to calculate the impact on the growth of output of economic policy measures with incidence on final demand. However, the analysis presupposes a given (pre-determined) structure of final demand. In fact, this structure usually changes over time, and it is an interesting exercise to quantify the growth effects of a stimulus of certain intensity for several possible structures of final demand. This can be done by mean of the so-called singular value decomposition method. The advantages and limitations of this method are discussed, with an empirical application to the Portuguese case.

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