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Single Country CGE Model

(smod_t): Policy Analysis

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Outline

- Policy Analysis
 - Role
 - Backstory & the economy
 - Simulation v Experiments
 - Comparative statics

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Policy Analyses: Setup

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Role of an Analyst


- Advice
 - Options; Implications; Information
- Legitimation
 - ‘post hoc ergo propter hoc’ (after this, therefore because of this)
 - Argument by analogy (It worked in ****)
 - Appeal to authority (The **** says this is best)

Aim: Understand how a system may operate and respond to policy changes

Objective: Provide information useful to policy makers

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Backstory & Economy

- What is the policy issue being examined?
 - Learn about the economy and the issue
- What is the ‘economic’ environment?
 - Socio-politico-economic issues
- How does the economy operate?
 - Exchange rate regimes
 - Tax system options
 - etc.

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Policy Analyses: Implementation

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Simulation v Experiment

- Shocks
 - Set all indirect commodity tax rates to ZERO
 - Identify **the** VAT rate that the government should impose
- Report
 - Identify the **aggregate** welfare gains associated with a 'more efficient' tax instrument

- Shocks
 - Remove each indirect commodity tax in turn
 - Analyse the implications of differential VAT rates
 - Analyse a range of alternative fiscal policy options, e.g., direct taxes, reductions in government expenditure, etc.,
- Report
 - Identify the **household** welfare effects associated with different combinations of tax instruments
 - Identify implications for **other dimensions** of the economy, e.g., competitiveness of activities

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Comparative statics

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Issues with Comparative Statics

- Comparative statics and 'manna from heaven'
 - Avoid changing the future
 - Free goods from the future
 - **unrequited debts**
- Comparative Statics and Deficits
 - Reduce tax rates with flexible internal balance
 - Welfare enhancing because government deficit does not enter the welfare/absorption metrics
 - **debt passed to future generations**
- Comparative Statics and the Future
 - Reduce savings rates
 - Current consumption increases at the expense of future consumption
 - **capital stocks in the future decline**

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The End

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