

Estimating Induced Effects in IO Impact Analysis: Variation in the Methods for Calculating the Type II Leontief Multipliers

Topic: New techniques, constructions and applications of Social Accounting Matrices

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This paper compares and evaluates existing methods for calculating Type II Input-Output (IO) multipliers. These methods are alternative formulations of the standard Leontief multiplier model that claim to endogenise household consumption. We find that all the methods have drawbacks because the IO accounts are missing key data required to correctly link household income and consumption to domestic economic activity. However, Social Accounting Matrices (SAMs) incorporate, and systematically track, the flow of factor incomes to households that IO analysis lacks. We therefore compare the values for various IO Type II and SAM multipliers, using comparable regional (Scottish) and national (UK) data sets. The results suggest that variation in Type II IO multiplier values is an empirically non-trivial issue and that practitioners should be aware of this.