

Summer Term 2021

MW86 - Seminar

Economic policy evaluation in general equilibrium

When economists want to understand the economic behavior observed in the complex world around us, they often try to build an economic model. A model simplifies real-world events into a framework where key players act according to their own objectives. The challenge of economic modeling consists of distilling a model rich enough to explain events credibly but simple enough to put the spotlight on the essential actions.

There are different kinds of economic models. The type that we will be studying in this seminar are computable general equilibrium (CGE) models. These are economy-wide models because they describe the motivations and behavior of all producers and consumers in an economy and the linkages among them. To that end, the model depicts firms that respond to demand by purchasing inputs, hiring workers, and using capital equipment. The income generated from sales of firms' output ultimately accrues to households, who spend it on goods and services, taxes, and savings. Tax revenue funds government spending and savings lead to investor spending. The combined demand by private households, government, and investors is met by firms that, to complete the circular flow of income and spending, buy inputs and hire workers and capital used in their production processes.

In these models the simultaneous interaction of several agents and the constraints embedded in the model can lead to complex effects of a simple policy change as it propagates through the linkages built in the model by the modeler. In this seminar, students will learn how to build such a model using a software widely used by policy makers and advisors around the world: The Global Trade Analysis Project (GTAP). Once built, a model can be manipulated and serve as a tool to evaluate the effects of policy changes in general equilibrium. By playing with this "toy" representation of economic activity, the economist can learn more about the fundamentals behind an event and can study likely outcomes or possible solutions.

Target group: Advanced students enrolled in M.Sc. Economics or M.Sc. Business Administration.

Schedule:

- Introduction to the seminar: April 23rd, 2021, 8:30-12:00, Online (Link via mail).
- Introduction to GTAP: April, 30th, 8:30-16:00, Online (Link via mail).
- Final presentations: June, 25th, 8:30-16:00, tbd

Examination:

- Term paper (ca. 10 pages) presenting and discussing results obtained from an exercise in GE modeling.
- Presentation.

Credits: 2 SWS/4 ECTS

Textbook: Burfisher, M. E. (2021). Introduction to computable general equilibrium models (Third edition). Cambridge University Press.

Topics:

- Climate shocks and food price spikes
- Food fight: Agricultural production subsidies
- How immigration can raise wages
- Anatomy of a trade war
- The marginal welfare burden of the US tax system
- Climate change – the world in 2050 (Group project)
- Changing consumer attitudes toward tobacco use (Group project)
- Deep integration in a Japan-US preferential trade agreement (Group project)