

Herve et al., 2010, "The OECD's New Model," OECD Economics Dept. WP 768.

Table 3. Sustained increase in US public expenditures (1% of GDP)

Percentage deviations from baseline

	Years after shock				
	Year 1	Year 2	Year 3	Year 4	Year 5
UNITED STATES					
GDP level	0.9	1.0	0.6	0.0	-0.5
Inflation	0.1	0.3	0.9	0.7	0.1
Interest rates (basis points)	60	95	155	95	-10
Government net lending (% GDP)	-0.8	-0.6	-0.6	-0.8	-0.8
Current Account (% GDP)	-0.2	-0.1	0.1	0.2	0.3
Japan					
GDP level	0.2	0.2	0.1	0.0	-0.1
Inflation	0.1	0.0	0.1	0.1	0.0
Interest rates (basis points)	20	10	25	10	-10
Government net lending (% GDP)	0.0	0.0	0.0	0.0	-0.1
Current Account (% GDP)	0.1	0.1	0.0	-0.1	-0.1
Euro					
GDP level	0.1	0.1	0.1	0.1	0.0
Inflation	0.0	0.1	0.1	0.1	0.0
Interest rates (basis points)	10	15	20	15	10
Government net lending (% GDP)	0.0	0.0	0.0	0.0	0.0
Current Account (% GDP)	0.1	0.1	0.2	0.2	0.2
GDP level					
Other OECD Europe	0.2	0.2	0.2	0.1	0.1
Other OECD	0.3	0.3	0.3	0.2	0.0
Total OECD					
China	0.2	0.3	0.2	0.0	-0.1
Other non-OECD Asia	0.5	0.0	-0.3	-0.3	-0.2
Non-OECD Europe	0.1	0.1	0.0	0.0	-0.1
Other non-OECD	0.1	0.1	-0.1	-0.2	-0.2
Total non-OECD					
World	0.4	0.4	0.3	0.0	-0.2

model, though still relatively crude incorporates a considerably more complete specification of wages and prices. Thus a shock to China's domestic demand generates quite considerable inflation pressures which in turn reduces competitiveness and serves to increase import leakages, thereby boosting the stimulus to the OECD economies. Clearly if a feature were also present in the other non-OECD economy models, the impacts would be greater both on OECD output and world prices. The lack of such mechanisms clearly limits the realism of the shock, as does its sustained nature.

Table 12. Sustained 10% increase in non-OECD domestic demand

Percentage deviations from baseline

	Years after shock				
	Year 1	Year 2	Year 3	Year 4	Year 5
UNITED STATES					
GDP level	0.6	0.9	0.8	0.5	0.5
Inflation	0.1	0.2	0.8	0.8	0.6
Interest rates (basis points)	41	72	147	142	99
Current account (% GDP)	0.5	0.6	0.7	0.9	1.1
Japan					
GDP level	1.2	1.4	1.6	1.6	1.5
Inflation	0.6	0.7	1.2	1.0	0.7
Interest rates (basis points)	150	80	243	209	164
Current account (% GDP)	0.9	0.9	0.9	0.9	0.9
Euro					
GDP level	0.7	1.1	1.5	1.7	1.8
Inflation	0.2	0.4	0.7	0.8	0.9
Interest rates (basis points)	60	106	178	192	206
Current account (% GDP)	0.4	0.4	0.6	0.8	1.0
GDP level					
Other OECD Europe	1.1	1.6	2.0	2.3	2.5
Other OECD	1.0	1.1	1.3	1.4	1.3
Total OECD	0.8	1.1	1.3	1.2	1.2
China	6.1	6.7	5.2	4.0	3.0
Other non-OECD Asia	9.5	8.4	8.2	8.1	8.0
Non-OECD Europe	6.7	7.2	7.7	8.2	8.4
Other non-OECD	7.8	8.6	8.9	9.0	9.2
Total non-OECD	7.8	8.0	7.8	7.6	7.5
World	2.0	2.4	2.5	2.4	2.3

63. On the whole, the corresponding effects on the OECD economies are moderate in relation to the scale of the apparent scale of the shock. This reflects both the dampening due to the share of imports in non-OECD demand and also the share of exports in OECD GDP. Thus OECD exports increase by an average 4 to 5% over the period and, allowing for OECD import leakages and internal crowding-out, real GDP by 1 to 1.3%. There is nonetheless considerable variation in GDP responses across the OECD, with the highest gains being for the more trade-intensive economies and regions. Japan's GDP and current accounts, in particular benefit from an above average short-term export response to market growth plus a greater specialisation in trade with the non-OECD countries, especially within the Other Asia region, with GDP effects averaging 1½ per cent. The impact on the euro area is of the same order of magnitude, but slower to build up, while that for the Other OECD Europe is highest, rising to around 2½ per cent reflecting greater openness and linkages to other exporting countries. By contrast United States responses are considerably lower, reflecting typically lower export shares in non-OECD markets, lower trade multipliers and faster rate of crowding out through interest rate and real wealth effects. By contrast OECD