

0.3 The Structure of TM - A Sectoral View of The Model

The basic flow of the TM model can be broken up into relationships between eight basic sectors. Figure 0.3 displays a sectoral flow chart of TM.

The overall linkages in TM can be considered as elaborations of the basic identities underlying the System of National Accounts.

Sector 1: Final Demand

The final demand sector defines the basic expenditure identity in which Gross National Product or Gross National Expenditure is defined with respect to its expenditure components: consumption, investment, government expenditure, exports and imports. For investment, the key explanatory variables (and hence linkages) are industry output (Sector 2), industry incomes (in the form of gross domestic product - Sector 4) and final demand prices (Sector 5). It should be noted that separate equations for investment in machinery and equipment as well as structures are estimated for each of over 47 industrial categories.

Personal income, derived in Sector 6, final demand prices (Sector 5) and demographic aggregates (Sector 3) are the key explanatory variables in the more than fifty endogenous categories of consumer expenditure.

For exports, the chief linkage from the rest of the model is through industry prices. However, some categories incorporate supply linkages. Measures of demand for exports are, of course, exogenous. For imports, relative prices are a key determinant.