

Answers to Hubert Escaith

Guillaume Daudin*

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1 Why not based on VA trade ?

Why don't we simply :

1. Compute the origin of the VA content of each good
2. Study how the price evolve following a shock on the price of VA in a country or another ?

Intuition:

That would not do because the price of, e.g. French VA does not change for everybody.

Doubt: is that enough an argument ? 2 sectors, 2 countries

$$A = \begin{pmatrix} a_{1,1} & a_{2,1} \\ a_{1,2} & a_{2,2} \end{pmatrix} \quad (1)$$

$$I - A = \begin{pmatrix} 1 - a_{1,1} & -a_{2,1} \\ -a_{1,2} & 1 - a_{2,2} \end{pmatrix} \quad (2)$$

$$(I - A)^{-1} = \frac{1}{(1 - a_{1,1})(1 - a_{2,2}) - a_{1,2}a_{2,1}} \begin{pmatrix} 1 - a_{2,2} & a_{2,1} \\ a_{1,2} & 1 - a_{1,1} \end{pmatrix} = \begin{pmatrix} u & v \\ w & x \end{pmatrix} \quad (3)$$

$$\text{demande française} = d = \begin{pmatrix} h \\ f \end{pmatrix} \quad (4)$$

$$(I - A)^{-1} d = \begin{pmatrix} uh + vf \\ wh + xf \end{pmatrix} \quad (5)$$

*PSL, Université Paris-Dauphine, Sciences Po, OFCE. E-mail: gdaudin@mac.com