Real output, expenditure and terms of trade across countries: an international input-output approach

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Abstract

In this paper we present a new approach to the derivation of real GDP from the production side. In contrast to Feenstra et al. (2009) we do not rely on international trade unit values to derive PPPs for exports and imports. Instead, we rely on the relationships between prices of goods that can be derived within an international input-output framework. In particular, we make use of the relationship between the output price of a good in an exporting economy, and the import price of the same good by the importing country. In this so-called international input-output (IIO) approach, we use international IO-tables in which imports and exports are broken down by trading partners such that bilateral flows of goods can be distinguished. We show that this new approach delivers estimates for real GDP that are closer to the estimates derived from the output side than those based on unit values.

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