

File:ED Section 6, equation 3 6.2.2.png

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Finally, the adjustment factor (LabDemsAdjFac) is computed as the ratio in the first year between the actual and computed employment by sector. Actual employment in the model's first year is obtained from historical data (LABEMPS) processed using the GTAP database. The computed employment is obtained by multiplying the labor coefficients (LABCOEFFS) with the output of the sector (VADD). Clearly, the labor coefficients computed from cross-sectional functions will not precisely generate the level of total employment that we find in the data. In IFs we often refer to the adjustment factor needed to reconcile data and computed values in the first year as a shift factor. Contrary to much practice in IFs, this multiplicative shift factor in labor is not converged to a value of 1 over time but assumed to represent persistent national differences in economic sectoral structures.

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