Impact of world demand shock
an illustration using a macro model of Morocco

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This paper describes the impact of world demand shock on Moroccan economy using the macro econometric model. The model has been built using annual data and is aimed at improving the current analysis in many ways: it can provide short run forecast of the economy, it can provide analytical exercises and it can explore the effect of unanticipated shocks or of policy change. The model mingles short run Keynesian dynamics with a consistent neo-classical supply side. In the current version, potential output is given by a constant-returns-to-scale Cobb-Douglas production function. In the long run, potential output is determined by the working age population, total factor productivity and the real cost of capital. The short run dynamics is determined by an error-correction model, which implicitly assumes the presence of adjustment costs that smooth the convergence towards the long run equilibrium. The model allows understanding the evolution of a range of macroeconomic variables. Moreover, the model demonstrates good potential for policy simulations. It’s responses to standard shocks are in line with usual analytical exercises and with the economic observations. The policy simulation of the model is illustrated by the simulation of foreign demand shock. The increase of world demand influence heavily Moroccan economy, considered as a relatively liberal economy with a higher diversification of the external trade. The simulation shows the importance of foreign demand in terms of their global positive effect on aggregate demand, employment and growth.

Keywords: Macro econometric model, Forecasting, policy simulation, simulation of world demand shock.