Role and Usefulness of Models
Role of Models

- Models can be used as a tool.
- Models average past behavior.
- Models are consistent and systematic framework.
- A Model forecast is based on assumptions.
- Should be used with MPB’s judgement.
Usefulness of Economic Models

- Help in forecasting macroeconomic picture.

- Assist in evaluating effects of policies and external factors.
Components of macroeconomic model

- Financial Programming Framework
- External Block
- Real Sector Block
- Public Sector Block
- Indicators
- Policy Questions
- Macroeconomic Model
- Core Model
- Policy Conclusion
- Policy Simulation & Forecasting
- Reaction Function
- Optimal Solution
- Forecasting
- Output
- Inflation Targeting
- Inflation Indication
Model needs to be improved depending on:

- New data become available.
- The opportunity in developing and improving the model.
- Changes in the economic and social environment.
- New research findings in economics and new techniques in econometrics.