Social Accounting Matrix and its impact on households

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A Social Accounting Matrix (SAM) is a single entry accounting representation of all transactions and transfers between different sectors, factors of production and institutions of the economy in a single framework. Each row of the SAM represents receipts of an account while each column stands for the expenditure. SAM is an extension of Input-Output (I-O) table. In I-O table final consumption expenditure, capital formation and trade are shown by product or industry of origin and intermediate consumption both by product or industry of origin and destination. Income generation is given by value added.

SAM in addition gives the inter-relationship between income distribution and final expenditure. Production of goods & services requires inputs and factors of production, viz. labour and capital. Inputs are made available as intermediate products from other sectors or same sector itself. The factors of production are contributed by the institutions (viz. households, firms and government). Institutions receive factors' payment as value added. The other sources of income of institutions are transfer payment from the government and remittances from rest of the world. Income, thus earned, is spent as the consumption expenditure on goods & services, paid to the government as taxes and the rest is saved. The demand of goods and services and factors of production is harmonized by imports. The saving is used as investment.

The basic structure of SAM is based on the following transactions and transfers in the economy. Production requires intermediate goods and the primary factors of production, viz. labour and capital. These factor endowments are contributed by the institutions (viz.households, firms and government), who in turn, receive factor payment as value added. Apart from value added, institutions get income from other sources such as transfers from the government and from rest of the world. Income is spent as the consumption expenditure on goods and services and for payment of taxes and the rest is saved for the future. Total supply in the economy has to be matched by the demand made by the institutions and capital formation, i.e. purchase of investment goods. In the SAM, extra breakdown of the household sector is done to reflect the role of people in the economy.

SAM Applications

1. To assess the direct and indirect impact on different sectors due to change in one or more sectors of the economy due to policy changes

2. Through multiplier analysis the effect on output, employment, household income and revenue earned by the government and resources required for a particular sector to grow can be estimated.