

Effects of shocks in the terms of trade of raw materials on the observed and potential GDP Bolivia

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Abstract

In this research, the effects of permanent shocks in terms of trade (ToT) of commodities on the observed and potential GDP of Bolivia from 1970 to 2018 are analyzed. A neoclassical production function was used to find the potential product and, in order to estimate the persistent ToT shocks, Autoregressive Vectors with Local Projections method was used. An important relationship between the Total Factor Productivity and the potential GDP was evidenced both in periods of systematic ToT falls (1980q1-1988q3) and in those of sustained expansion (2005q1-2014q2). It also highlights the greater relative importance that capital factor acquired to explain the growth since 2010. Impacts of persistent ToT shocks would be significant on the growth of the observed and potential GDP, but the magnitude of the effect on these variables would be less with continuous TOT falls.

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