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RunMONASH: Automating A Dynamic, Recursive CGE Model

by

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The Centre of Policy Studies (COPS) is a research centre at Monash University devoted to quantitative analysis of issues relevant to Australian economic policy.

ABSTRACT

RunMONASH, a software program, written by Ken Pearson, is used to solve the CGE model, MONASH. RunMONASH produces a base case forecast for a set of years in sequence. In response to some additional policy shocks, RunMONASH calculates a policy deviation from this base case, again for the same sequence of years.

This paper outlines the reasons for writing RunMONASH and the basic ideas of the solution method. It gives an overview of the dynamic CGE models for which RunMONASH can be used.

A brief introduction to the Screen interface is included. However, the main documentation of RunMONASH is the Online Help file that accompanies the software.

KEYWORDS: dynamic CGE model, GEMPACK software.

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1. Introduction

RunMONASH is a Windows program, which allows dynamic GE modelling to be carried out easily and accurately with the MONASH model. RunMONASH was written at the Centre of Policy Studies / Impact Project, Monash University. The chief software creator is Ken Pearson, with some assistance from Mark Horridge, Maureen Rimmer and Jill Harrison.

1.1 The MONASH CGE Model

The MONASH model is a dynamic model developed by Professor Peter Dixon and his research staff at the Centre of Policy Studies, Monash University. MONASH is the latest development in the ORANI suite of computable general equilibrium (CGE) models of the Australian economy. It is designed for forecasting and for policy analysis. Documentation of the model is in Dixon and Rimmer (2001 and 2002).

The MONASH model produces annual forecasts of structural developments in the economy which track forecasts of the business cycle and developments in world commodity markets. MONASH results distinguish 112 industries, 56 regions and 282 occupations.

At the same level of industrial, regional and occupational disaggregation, MONASH can be used to assess the effects on the economy's forecast growth path of policy changes and of changes in other base case assumptions.

MONASH can be solved using RunMONASH to produce a base case forecast for a set of years in sequence and a policy deviation from this base case in response to some (additional) policy shocks, again for the same sequence of years.

1.2 RunMONASH Software

The RunMONASH program is used for running the MONASH model. It is not concerned with building or modifying the MONASH model.

The simulations for each year are carried out using GEMPACK software (General Equilibrium Modelling Package) developed by the Impact Project and used in many countries (see Harrison and Pearson, 1996). The results of the simulations are several Solution files; one for each year of the base case, and corresponding Solution files (one for each year) in the policy deviation from the base case.

RunMONASH is a Windows interface, which automates the calculation of the base case and deviation simulations using GEMPACK. It also carries out many of the routine tasks previously done by the modeller. RunMONASH manipulates and checks input files, writes GEMPACK Command files (CMF) for each year of the base case and for each year of the policy deviation.

After it has run the simulations, it converts the Solution files into a form suitable for spreadsheets, and assembles the year on year results into combined spreadsheet files.

Within RunMONASH, there is access to other GEMPACK Windows programs such as ViewSOL, AnalyseGE and ViewHAR that are used to view the results of the simulations,

RunMONASH can be used to zip up the ingredients of the set of simulations, or the results of the simulations.

1.3 Reasons for Writing the RunMONASH Software

The methods used to solve the dynamic model MONASH were developed at the Centre of Policy Studies during the 1990s. The editing of files to create each Command file for each

step of the simulation was time-consuming and error prone. The handling of the large number of files involved in the simulation process was difficult. The transferring of the shocks from the base case to the corresponding base rerun simulation was also difficult. The teaching of the MONASH model simulation process was almost impossible.

For these reasons, in 1998, Ken Pearson, in cooperation with Patrick Jomini and Kevin Hanslow (then at ABARE), thought of the idea of automating all possible processes under the software mantle of RunMONASH. The initial version was developed partially supported by some funding from ABARE.

The RunMONASH software entirely takes care of the time-consuming routine editing and difficult file handling tasks.

With later versions of the software, the checking of input files and file handling has been greatly expanded. The ability to zip up ingredients and results has been extended. Time and date stamps are used to keep track of whether a file has been changed since the last run of the simulation. The prerequisites of a set of simulations are carefully checked using an algorithm developed by Ken Pearson, assisted by Mark Horridge.

1.4 RunMONASH Help File

Full details regarding RunMONASH are given in the Help File supplied with RunMONASH. This Help file is the main documentation of all the different aspects of RunMONASH. In particular, the Help File gives instructions about how to get started with RunMONASH.

2. Dynamic Models

The type of model that can be used with RunMONASH is based on the idea of starting with an initial database that, in many cases, represents the pre-simulation state of the economy. The model calculates the changes and percentage changes from the shocks applied to the model by solving the set of non-linear equations in the model. The initial database is then updated to make a new database, which has the same structure as the initial database.

Models implemented in GEMPACK are usually of this form.

After the first year, the updated database for the first year is used as the initial data for the second year. Then the second year is solved and the updated database is used as the initial data for the third year and so on. In this way a sequence of linked annual simulations can be calculated.

Dynamic models often have additional links between years to incorporate physical capital accumulation, financial asset/liability accumulation and lagged adjustment processes. This is described for the MONASH model in the MONASH Model book (Dixon and Rimmer, 2002) in section 2.1.

2.1 Inputs to RunMONASH

The MONASH model is implemented as a GEMPACK TABLO-generated program and its executable image MONASH.EXE is one of the key inputs to RunMONASH. Other inputs needed are a set of initial database files, for the starting year.

In addition, the closure and shock information needed is:

1. a set of closures (exogenous variables), one for each year of the forecast, and the shocks to some of these exogenous variables to describe the economy in the base case,
2. a set of closures, one for each year, for the policy simulation, and the additional policy shocks for the deviation simulations.

3. Base Case and Policy Deviations

RunMONASH is used to construct a base case and one or more policy deviations from the base case with a dynamic model. The model is solved on a year-to-year basis (that is, recursively) over a number of years, starting from initial data. For each subsequent year, the starting data is the updated data produced by the previous simulation.

This method of stepping forward one year at a time approximates the path of the economy through time. A smaller or larger time step than one year could be used. However RunMONASH uses the simple assumption that each time step is one year.

As an example, the problem to be solved is to use a dynamic model to produce

- a base case (which may be a forecast) for a set of years in sequence, for example, for the years (2001, 2002,...,2010)
- a deviation from the base case in response to some change in policy, again for a sequence of years, for example, the years (2004, 2005,...,2010).

The results that RunMONASH produces are the simulation solutions for the base case for each of the years, for example (2001, 2002,...,2010) and the solutions for the policy for each of the policy years for example (2004, 2005,...,2010). Other interesting results are the cumulative differences between the base case and the policy simulations.

A complete policy simulation consists of 2 or 3 multi-year runs, namely the Base run, the Rerun of the Base (if being done) and the Policy run.

Each of these multi-year runs consists of a sequence of linked annual simulations.

In the example above, the Base Case is the sequence of linked annual solutions for the years (2001, 2002,...,2010). The Policy run is the sequence of linked annual simulations, with the additional policy shocks, for the years (2004, 2005,...,2010).

For example, the policy change may be a change in import tariffs in the years 2004 and 2005. The question to answer is: How would this change affect the results? The policy (or deviation) shocks and the closures to use for each year of the policy calculation are specified. RunMONASH calculates the effects of this policy change. Adding the policy shocks to those from the base case, RunMONASH recomputes the results for each relevant year, using the policy closures.

The policy deviation run starts from the first year in which there are extra policy shocks. Thus, for example, if there are no extra policy shocks for the first 3 years, the policy deviation run will start with a run for the fourth year (and the policy closures for the first 3 years are not relevant). However, the policy deviation run always continues to the end of the base case, even if there are no extra policy shocks in the last few years. This is because the extra policy shocks in the previous years will still be having effects through these last years (via the different starting databases for these years).

As with the base case, RunMONASH prepares a spreadsheet showing the percentage changes (from the pre-simulation database) for each year. RunMONASH also produces a spreadsheet showing at each year the differences between the policy run and the base case. These show how the changes due to the policy shocks would accumulate through the years of the base case. Simulation results can also be viewed with *ViewSOL* and *AnalyseGE* within RunMONASH.

3.1 Policy closures

The policy closures are often different to the base case closures since variables which were endogenous in the base case closures may need to be exogenous in the policy closures so that they can be shocked (or held constant). Often in the base case, some macro expenditure variables, some commodity exports, world prices, technology and tariff changes can be predicted using expert knowledge from outside the model. These variables are exogenous and shocked in the base case. In the policy changes some of these variables are endogenous so that they can be affected by the policy shocks.

The difference between the forecast closure, and the policy closure, in the MONASH model, is discussed in Chapter 7 of the MONASH Model (Dixon and Rimmer, 2002).

3.2 Rerunning the Base Case

With some models it is customary to rerun the base case using the policy closures before the Policy shocks are applied. If the Base Rerun is done, the closures used to rerun the base case are the same (for each year) as will be used when running the policy deviation (which is why we call them the policy closures).

The Rerun is done because changing the closure often changes the numerical results slightly (even if there are no extra shocks). Such differences can contaminate the reported effect of the Policy shocks. So, when calculating the effects of the Policy shocks, it is best to compute the differences between simulations using the same closure, namely between years of the Policy and the corresponding years of the Rerun.

If the base case is rerun and then the policy deviation is run with the same closure as the rerun, the differences reported are those between the Policy run and the base case rerun using the policy closures.

There is a choice under the Run Preferences menu that controls whether or not to rerun the base case in this way.

The Rerun is not necessary if the same set of closures is used in the Base and Policy.

Even if there are different Policy and Base closures, the Rerun may not be necessary if the effects of the Policy shocks are very large. Then it probably does not matter if the small numerical differences between the Base and the Rerun are included in the results reported.

3.3 Rational Expectations

RunMONASH can also be used for dynamic simulations using Rational Expectations as is described in Dixon *et al.*(2003). Prior to this process being automated in RunMONASH, the process was very difficult to carry out. Maureen Rimmer was the only person capable of running the Rational Expectations for the MONASH model. While the RunMONASH software makes this process available to all users, it still takes care to get the process converging correctly.

This is a time-consuming option, with simulation times typically being many-fold longer than with static expectations, depending on the number of iterations involved.

4. The Screen Interface

The screen of RunMONASH is a tabbed notebook or card index interface with several different pages. The first page is just the title page (**Introduction**) for RunMONASH. The remaining pages are arranged in the order in which they are typically used:

Model/Data, Sim Overview, Closure/Shock, Results, Other files.

To go from one page to the other, the method used is to click on the one of the Tabs. These different pages are described in the following sections.

Carrying out a complete simulation can be controlled by the three buttons on the bottom left hand side of the screen marked Run Base Case, Rerun Base, Run Policy. (Alternatively, the individual annual simulations making up a complete policy simulation can be carried out in various orders.)

4.1 RunMONASH Pages

When RunMONASH is run, the Model executable-image, a number of database files, and several closure and shocks files are loaded. This may be done either manually, or via a saved simulation details file, or from a ZIP archive containing all the ingredients of the simulations.

The main menu bar contains the menu items below that, in turn, contain many other different options and choices used to control the simulation process.

File • Zip • Tasks • View • Options • Run Preferences Help

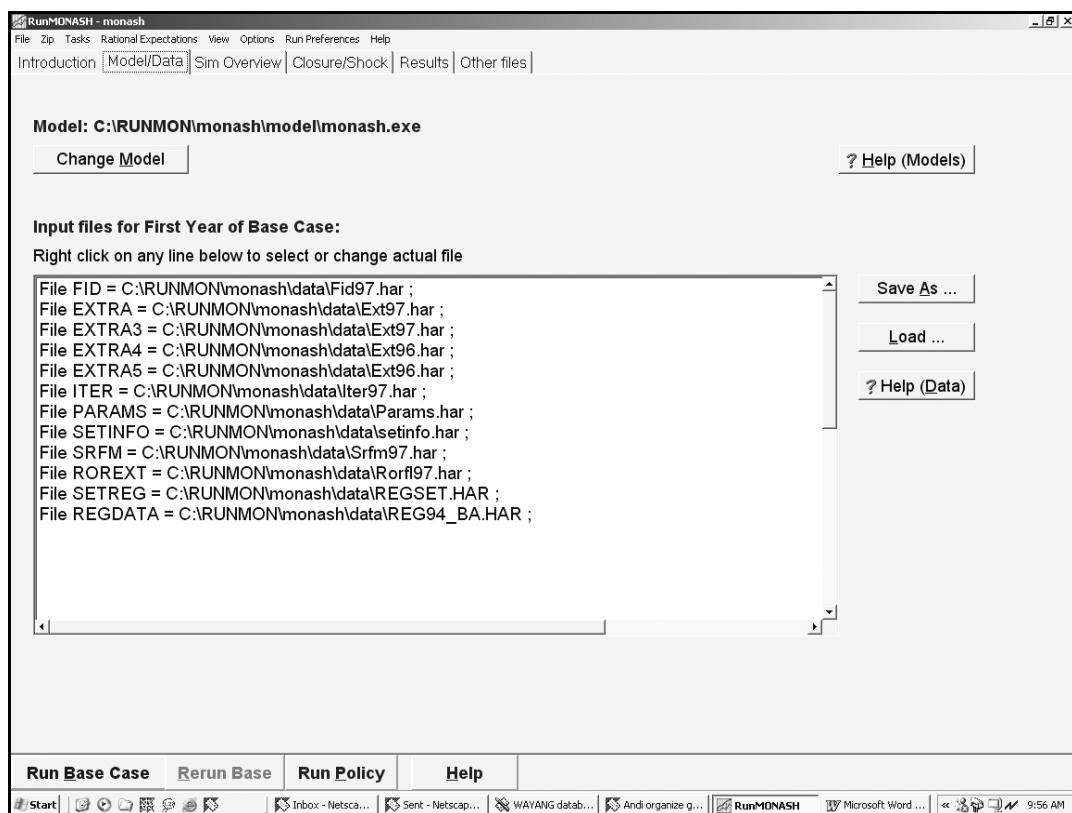
4.1.1 Model/Data Page

On the Model/Data page, the name of the dynamic model and any group of input data files for the model are selected. These are the starting points for the base case.

The Model/Data page is shown in figure 1. In the top part of the page, there is a button to select which model to use. The model must be a dynamic model as described in section 2.

The lower part of the page seeks a file name for all the (input) Files (as specified in File statements in the TABLO code of the model). A useful feature of this page is the *Save As* option which saves all the file names to single file, and then these names can be entered again later using the *Load* option.

Figure 1: Model/Data page



4.1.2 Sim Overview Page

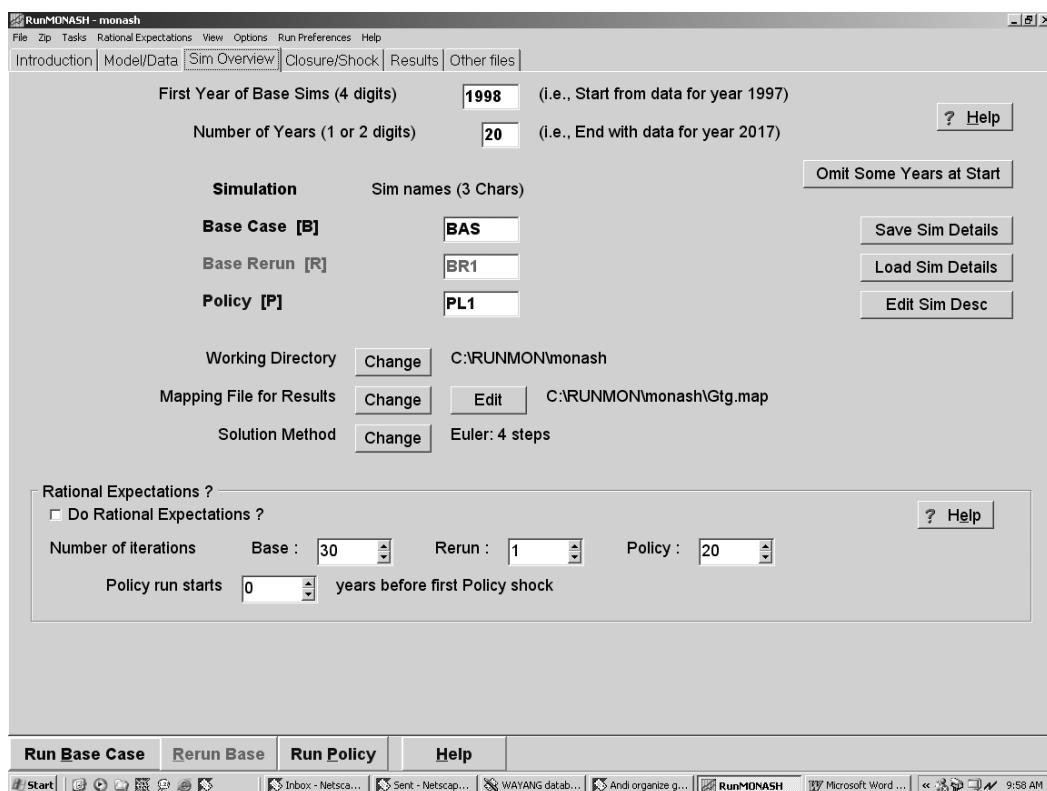
The **Sim Overview** page asks for various details including the initial year of the simulation and the number of years over which the simulation is run. In addition, the names for the output files from the base case and policy runs are chosen, and a solution method to solve the model is selected.

The Sim Names boxes select the three letters used as part of the output file names. RunMONASH has a complete and consistent method of naming files such as the Solution files, updated data files, log files, spreadsheet files. Considerable checking is carried out to make sure that the simulation process runs through to the end with all the pre-requisite files available and unchanged. In the linked sequences of files making up the Base case, Rerun and Policy sequences, RunMONASH ensures that the sequences are carried out properly by checking the time and date of when files were created.

Typically, a relatively old database, for example, 1996-97 is used to start the simulation. The first few years calculated using *Run Base Case*, update the database to the current period, for example, to 2003-04. If needed, the initial year can then be changed using the option *Omit Some Years at Start*. This option will change details on the relevant pages of RunMONASH. For example, there will be no need to load altered file details on the *Model/Data* page, since this is done automatically by the *Omit Some Years at Start* option.

The lower part of the screen is used for rational expectations. However the usual way to run simulations does not use rational expectations.

Figure 2: Sim Overview page



4.1.3 Closure/Shocks Page

On the Closure/Shocks page, the closures and shocks are given via on text files, using the syntax required in GEMPACK Command files.

Four different input files are required for each year: the base closure, the base shocks, the policy closure and the extra policy shocks. Right-clicking with the Mouse on each box in the table brings up a menu of actions for each file such as selecting, editing and viewing.

Figure 3: Closure/Shocks page

Part	Base Closure	Base Shocks	Policy Closure	Policy Shocks
Pattern	BASYYYYY.CLS	BASYYYYY.BSH	PL1YYYYY.CLS	PL1YYYYY.PSH
1998	R98.CLS	R98.BSH	DEVMONE.CLS	none
1999	R99.CLS	R99.BSH	DEVMONE.CLS	none
2000	R00.CLS	R00.BSH	DEVMONE.CLS	none
2001	R01.CLS	R01.BSH	DEVMONE.CLS	none
2002	R02.CLS	R02.BSH	DEVMONE.CLS	DEVSH02.PSH
2003	R03.CLS	R03.BSH	DEVMONE.CLS	DEVSH03.PSH
2004	R04.CLS	R04.BSH	DEVMONE.CLS	DEVSH04.PSH
2005	R05.CLS	R05.BSH	DEVMONE.CLS	DEVSH05.PSH
2006	R06.CLS	R06.BSH	DEVMONL.CLS	DEVSH06.PSH
2007	R07.CLS	R07.BSH	DEVMONLL.CLS	DEVSH07.PSH
2008	R08.CLS	R08.BSH	DEVMONLL.CLS	DEVSH07.PSH
2009	R09.CLS	R09.BSH	DEVMONLL.CLS	DEVSH07.PSH
2010	R10.CLS	R10.BSH	DEVMONLL.CLS	DEVSH07.PSH

The functions of each column of the *Closure/Shocks* are explained in section 3.

4.1.4 Results Page

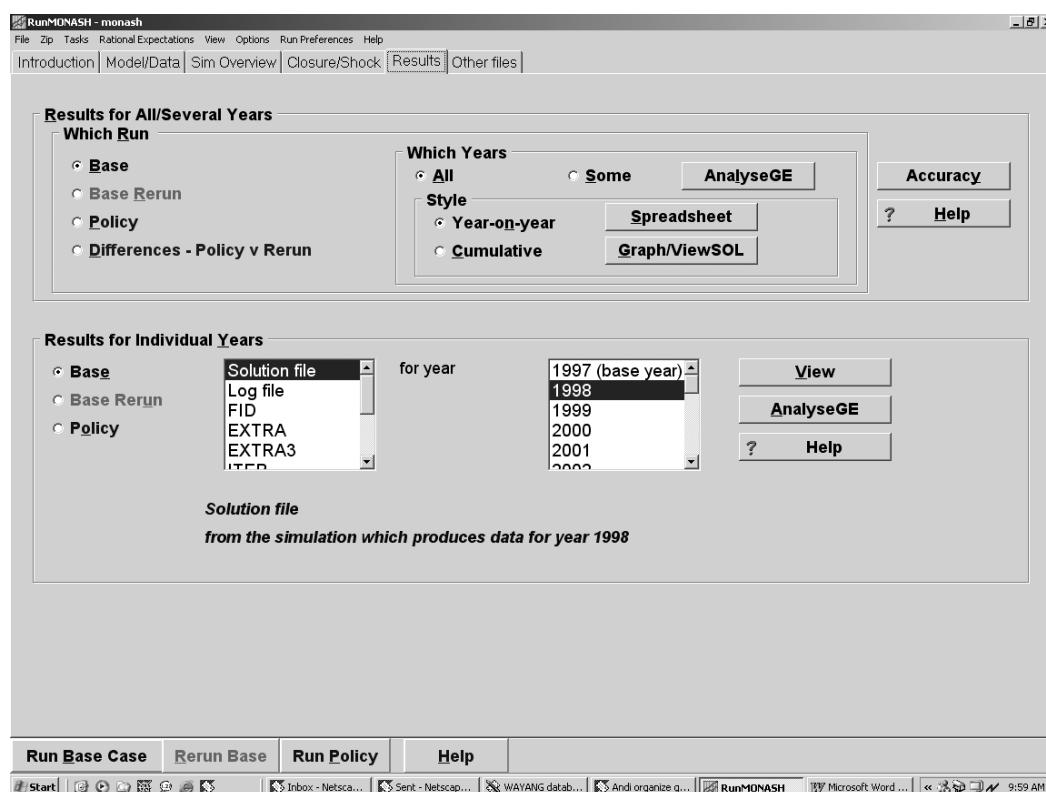
When the simulations for the Base case, Rerun and Policy have been run, the results of the base case or policy deviation can be selected on the Results page. Results can be viewed on the screen, or exported to other programs.

A natural way of presenting results for the base case is a spreadsheet table where the different columns represent different years, for example, (2001, 2002, ..., 2010) and the rows are the results for the variables (usually percentage changes) from the Solution files. A similar table is prepared for the results of the policy deviation. A final step is to prepare a separate table that reports (for each year) the difference between the base case simulations and the policy deviation from the base case.

The Results page contains many different options for viewing various updated database and solution files. The number of options in part reflects the complexity of dynamic simulations. For example, the most typical way of viewing the results of a dynamic policy simulation is to use the *Cumulative Differences – Policy v Rerun*. All changes in this option are expressed in year-by-year cumulative differences, rather than in terms of one year relative to the previous year or years. All results can be viewed using either the *Spreadsheet* or *Graph/ViewSOL* options.

In the lower part of the screen, results for individual years can be viewed. Either the initial model database or any of the updated data files produced during the base case or policy deviation can also be viewed.

Figure 4: Results page



5. Starting to Use RunMONASH

Instructions and examples are given in the RunMONASH Help file about how to start using RunMONASH. The main example starts from a Zip Archive that can be used to load the ingredients of a complete policy simulation into the correct pages of RunMONASH.

A Zip archive is a good way to save all the ingredients in a tidy package for later use or to give to other users. ("Ingredients" are all the files needed to run a complete policy simulation such as the model program files and first year data files, the closure and shock files and the simulation details on the different pages of the RunMONASH interface which control the complete policy simulation.)

5.1 RunMONASH Demonstration Version

The RunMONASH Demonstration version is available on the Web at
<http://www.monash.edu.au/policy/gprmon1.htm>.

This page also contains an application on Motor Vehicle Tariff changes which is the main application in the MONASH book (Dixon and Rimmer, 2002)

5.2 MONASH Model Courses

Although the Help file contains a lot of information, it is not easy to learn the important features of the software just from the Help file. A good introduction to the software and to dynamic modelling is given at the annual MONASH Model Course, run by the Centre of Policy Studies, Monash University – see <http://www.monash.edu.au/policy/courses.htm>

The RunMONASH software is supplied as part of the course.

5.3 RunMONASH's Cousins

The RunMONASH software framework is being used by other organisations who wish to run either the MONASH model or their own dynamic model implemented in GEMPACK.

- RunGDYN runs the Dynamic version of the GTAP model (Walmsley (2000)).
- RunQGEM runs a dynamic model of Queensland (Woollett et al).
- RunGTEM runs the GTEM model developed by ABARE (Pant et al 2002).
- Run MONASH is also used to run the MONASH Multi-Regional Model MMRF (Adams et al (2000)).

The standard version is called RunDynam.

5.4 Contacting the RunMONASH Developers

Please contact Ken Pearson (ken.pearson@buseco.monash.edu.au) for enquiries about obtaining this software and a licence to use it.

Details are on the Web page <http://www.monash.edu.au/policy/gprdyn.htm>.

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