

Directed Research Projects on Canadian Economic Policy

Document of Information

Host Organization

Department : Finance Canada, L'Esplanade Laurier, 140 O'Connor Street, Ottawa, ON

Group / Division / Branch : Fiscal Policy Analysis / Fiscal Policy / Economic and Fiscal Policy

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Supervising Economist : Carl Gaudreault, Senior Economist, Fiscal Policy Analysis

Project Description

In light of increasing deficits and growing debt burdens in many provinces and at the federal level following the recent financial crisis, fiscal issues have moved to the forefront of discussions and political debates. Consequently, many provincial Governments, as well as the federal Government, currently have fiscal sustainability high on their policy agendas. In this context, it is important to get the best indicators for assessing current fiscal position and long-term sustainability in provinces. One of these tools is the cyclically-adjusted (or structural) budgetary balance.

The objective of the project is to participate in one of the prerequisite steps leading to the construction of such an indicator for the provinces. To construct this indicator, one needs a measure of the economic cycle in each province, which must be evaluated against the potential gross domestic product (GDP) of each province. Potential GDP is the amount of output that the economy can produce when capital, labour and technology are at their respective trends. Constructing estimates of potential GDP for the Canadian provinces thus requires estimates for trends in labour input and labour productivity.

Benefits to the Student

This project is an opportunity for the student to build, manipulate and analyze real-world data sets while answering an important economic question. This is also an occasion to work and establish contact with economists from a federal department that is the primary source of economic and financial advice to the Minister of Finance and the Government of Canada.

Commitments, Tasks and Deliverables

The centrepiece of the project is a short note (in either French or English) reporting econometric results due at the end of the semester. For that purpose, the student, in cooperation with the supervising economist, will have to estimate well-specified simple ARIMA models for projecting labour productivity in provinces over the medium-term. In the second step, if time permits, the student will have to evaluate trends in these forecast-augmented series of provincial labour productivity using the Hodrick-Prescott filtering technique to separate out the cycle and trend movements.

Specific Qualifications

The student must be familiar with basic estimator theory and the classical linear normal regression model and have enough knowledge of some of the more advanced estimation and inference techniques to do the above proposed applied econometric research. The compulsory econometrics course (ECO-3151) is a minimum requirement. The more advanced econometric course ECO-4186 would be an asset.