

## **Research Project Proposal Submitted Under *Directed Research Projects on Canadian Economic Policy* at the University of Ottawa**

### **Market Size and Geographical Market Distribution: Canada vs. U.S.**

#### **Sponsoring Organization**

The project is sponsored by Economic Research and Policy Analysis Branch of Industry Canada. Industry Canada is a department of the federal government that oversees a number of micro-economic policies affecting Canadian firms and consumers. In support of the department, the branch is engaged in economic research and providing expert advice on a wide range of micro-economic policy issues.

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#### **Objective of the Project and Policy Context**

The economic literature shows that Canada's productivity trails that of the U.S. and a number of structural factors have been identified to be behind this gap in productivity. One such factor is the geographical obstacles faced by Canadian firms. In particular, Canadian firms face a small domestic market, and as a result, many of them may have difficulties achieving the level of scale required to grow and become highly productive. In addition to a small market, Canadian firms also face highly fragmented local markets throughout the country. The fragmentation inhibits Canadian firms from taking advantage of the Canadian market as a whole. Indeed, some of the research shows that retail markets that are separated by 600 km or more may not benefit from a common distribution network, and as such, these markets will be treated as independent.

The objective of this project is to document and quantify the differences in size and geographical market distribution between Canada and the U.S. and examine how such differences could affect the firm's decision to invest and innovate.

The study carries relevance to a number of public policy issues. Helping Canadian firms overcome geographical obstacles has been at the forefront of public policy discussions on how to improve Canada's economic performance and the standards of living of Canadians. The project is expected to provide new evidence on the magnitude of geographical obstacles faced by Canadian firms in relation to their counterparts in the U.S. thus contributing to such public policy discussions.

#### **Benefits to the Student**

Through this research project, the student is expected to gain a number of knowledge and skills that are necessary to be a professional economist. First, the student is expected to learn the

magnitude and geographical distribution of Canadian domestic markets and their relative importance to the U.S. counterparts. This knowledge will help the student understand how productions of different goods are organized in North America and gain appreciation of everyday discussions and announcements on firms' investment decisions, e.g., auto plants.

Second, the project will provide an opportunity for the student to gather and compile the data from the Canadian and U.S. statistical agencies. This experience is highly relevant since one of the key tasks associated with being a professional economist is to handle data from a statistical agency, e.g., Stats Can or U.S. Census Bureau.

Third, the student will have an opportunity to apply statistical analysis to real life data. This may include computations of simple statistics, presentations of figures, or econometrics. This opportunity will help students gain experience in using data to answer a real life research question related to a public policy debate.

### **Specific Tasks**

The project is expected to be completed in English.

The student is expected to produce a report on how differences in market size and geographical distribution of markets between Canada and the U.S. could affect firm performance in these countries. The report is expected to require the completion of the following tasks:

- (1) Compiling the list of major retail markets in Canada and the U.S. (5 hours);
- (2) Collection of data on these markets (20 hours);
- (3) Benchmarking market sizes of these markets (20 hours);
- (4) Benchmarking potential market sizes of these markets using their geographical locations (30 hours);
- (5) Estimating the effects of market size and market density on the number of product varieties in these markets (if time permits).

Note: All necessary data/data sources will be provided by the supervisor.

### **Qualifications**

- (1) Understanding of micro-economic decisions by firms to innovate or to incur sunk costs—possibly gained through an advanced micro-economic class
- (2) Ability to use Google Map
- (3) Ability to use a statistical software to collect and compile data
- (4) Ability to program and execute an automatic web search (desired but not required)
- (5) Ability to use STATA to estimate linear/non-linear regression models (desired but not required)