

Faculty members of the Economics Department participated at the FPA Research Series Event: **Economic Insights and Evidence to Inform Policy** held online on October 7th and 8th, 2020. This served as a platform for members of the Economics faculty to share their ongoing research on an array of topics.

On the first day of the research series Professor Minjoon Lee presented his research findings on “Cognitive Decline, Agency, and Timing of the Transfer of Control”. This paper is a collaboration with John Ameriks, the Vanguard Group, Inc.; Andrew Caplin, New York University; Matthew Shapiro, University of Michigan and Christopher Tonetti, Stanford University, GSB. The authors quantify the quality of financial decisions of individuals upon the onset of declining cognitive ability and role of agents to make decisions on their behalf. Using a sample of clients of Vanguard Inc. in America, they find that majority of the respondents are concerned about the timing of transfer of decision-making to their agents, especially delayed transfer. Inability to transfer control at the optimal timing can result in a loss of 14 percent of wealth on average. This paper further explores the demand for prevention of transfer at a wrong time. While this depends on several factors, the authors found that roughly 30 percent of the sample are willing to pay at least 2 percent of their current wealth.

Professor Dana Galizia presented results from his research on “Positive and Negative Feedback Mechanisms in the Business Cycle”. This paper is a collaboration with Paul Beaudry, Bank of Canada and Franck Portier, University College London. From US data they find evidence of cyclical patterns in the conditional recession probabilities as opposed to direct convergence. The findings also show that instability or otherwise limit cycle exists when non-linear terms are allowed in a reduced form approach in the business cycle model. Standards models do not reveal such cases. Lastly, the paper explores feedback mechanisms in the business cycle framework. Existence of both internal negative feedback (according to Hayek) and amplified demand complementarity (according to Keynes) can lead to more significant economic busts.

The first day of the series ended with a presentation by Professor Hashmat Khan on “COVID-19 Pandemic and Economic Scenarios for Ontario”. This is a joint work with Miguel Casares, University of Navarra, Spain and Paul Gomme, Concordia University. This paper uniquely integrates an equilibrium macroeconomic model with an epidemiological Susceptible-Infected-Recovered (SIR) model, providing useful policy implications. The authors use daily data and

incorporates optimizing behaviour of households in a pandemic by including ‘fear of death’ and social contacts in the conventional utility function. The paper compares counterfactual scenarios to observe the effects of public health policies and calibrate model parameters to Ontario data. They find that public health policies that are geared towards protecting lives and preventing spread of COVID-19 go hand in hand with economic resurgence in the province.

The second day of the research series consisted of three more presentations. Professor Lynda Khalaf started off the session with her paper on “Endogeneity in Empirical Risk Analysis: Multivariate Finite Sample Inference on Catastrophe Bond Mutual Funds (CBMF)”. She worked on this research with Marie-Claude Beaulieu, Universite Laval; Maral Kichian, University of Ottawa and Olena Melin, Bank of Canada. This paper tests CBMFs assumption of zero Beta and rejects it to find it endogenous to market fluctuations. It uses instrumental variables on the financial benchmarks of CAPM and QCAPM. Using monthly data from 2004 to 2015, the authors conclude that there is evidence of endogeneity of risk measures before the 2008 financial crisis. This paper highlights the extended use of the Durbin-Wu-Hausman (DWH) test of exogeneity to a multivariate setting with Gaussian or Student-t errors and proposes the multivariate Wilks-based IV test.

Professor Louis-Philippe Beland presented the findings of his paper on “Covid-19 and the Canadian Labour Market” which is a collaboration with Abel Brodeur, University of Ottawa; and PhD candidates Derek Mikola, Carleton University and Taylor Wright, University of Ottawa. This paper constructs indices for individuals’ proximity to coworkers, exposure to disease, status of critical worker and work from home to get an improved understanding of the effects of the pandemic for a comprehensive inference. They find that younger workers, immigrants, less educated, and unmarried individuals were disproportionately affected by the onset of the pandemic and economic crisis. Furthermore, workers who have to work near others encounter poorer labour market outcomes. This contrasts with workers who can work remotely and are affected less severely.

Professor Matt Webb lastly presented his paper on “Testing for the Appropriate Level of Clustering in Linear Regression Models” which he co-authored with James G. MacKinnon, Queen's University and Morten Ø. Nielsen, Queen's University. This paper proposes a novel method for testing of the correct level of clustering in empirical analysis. The score-based tests

includes an asymptotic and a bootstrapped approach. These tests are focused on inference of few variables of interest with the bootstrapped test geared mainly towards samples with few clusters. This paper highlights the importance of getting the level of clustering right which would otherwise affect inference.