

# A Message from the Head

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This past year saw a landmark established in our graduate program. The Spring 1985 Convocation was the occasion of the awarding of our 100th Ph.D. in Economics since the inception of the program in the 1960s. As discussed later in this Newsletter, no. 100 was Ed Nosal (supervised by Dick Lipsey, Doug Purvis and Ross Milbourne). We have always justifiably taken pride in our Ph.D. program, which is not only one of the biggest but certainly one of the best in Canada. We continue to attract high quality students, both Canadian and foreign, and have placed our graduates in a substantial number of universities across Canada (including Queen's!).

Scholarship continues to thrive in the Department, despite the continual pressure of resources and large class sizes. A recounting of some of the accomplishments of individual faculty members is presented elsewhere in this Newsletter, but some special accomplishments might be singled out here. Mac Urquhart continues to be honoured for his contributions to the profession. He was awarded an honorary degree at Bishop's this year. Steve Kaliski received the ultimate accolade of being Program Chairman of the Canadian Economics Association for 1985-6. Doug Purvis was invited to deliver the prestigious Harold Innis Memorial Lecture at the Annual Meeting of the C.E.A. in Montreal. And, David Smith is seeing through to completion the research of the MacDonald Royal Commission as the director of economic research. As the article later in the Newsletter indicates, several members of the Department have been involved in that research.

The Department continues to operate a very active visiting speakers program through our three weekly "workshops" (Micro, Macro and Quantitative). Distinguished visitors this year included Douglas Gale (LSE), Larry Summers (Harvard), Jeff Williamson (Harvard), Ron Ehrenberg (Cornell), Frank Fisher (MIT), Barry Eichengreen (Harvard), Hal White (U.C., San Diego), Joe Stiglitz (Princeton), and Adrian Pagan (ANU).

In addition, our visiting speakers program is highlighted each year by the Mackintosh Lecturer, named for a Queen's contributor to an earlier Canadian Royal Commission on the Economy. This year's lecturer was Vernon Smith from the University of Arizona who spent three days proselytizing an area in which he has been a major innovator, experimental economics.

Finally, several conferences were held in the Department this past year. A number of these were under the auspices of the John Deutsch Institute and are reported on later in this Newsletter. In addition, Charles Beach and James MacKinnon organized what is hoped to be the first of an annual series of Canadian Econometrics Conferences. Lorne Carmichael hosted the ninth annual Canadian Economic Theory Conference.

We have missed several of our faculty members who have been away on leaves. Dave Backus spent the year as a visitor at Southampton. Neil Bruce has been a Visiting Professor at UCLA. Russell Davidson spent his sabbatical leave at CORE in Louvain la Neuve, Belgium. Frank Flatters put in his second year advising the Minister of Finance in Indonesia on commercial policy. Jack Mintz has been on executive interchange in the Department of Finance. Dick Lipsey continued another year with the C.D. Howe Institute in Toronto. And, Dan Usher spent his sabbatical at the NBER in Stanford.

As replacements, we had the usual group of stimulating one year visitors from around the world. They included Shahid Alam (Karachi), Simon Clark (Edinburgh), Noxy Dastoor (Liverpool), David Demery (Bristol), Andre de Palma (Brussels), Chris Gilbert (Oxford), Tim Hatton (Essex), Yoshi Kanemoto (Tsukuba), David Yeung (York), Bill Watson (McGill) and George Freeman (Bank of Canada, retired). This was also the first year in the Department for two new appointees, Mary MacKinnon and Steve Williamson, who did their graduate work at Oxford and Wisconsin, respectively.

We shall also be seeing some new faces on the administrative side. Ann Green is completing her term as a temporary replacement for Alison Morgan as Senior Administrative Assistant. We are all very grateful for the enthusiasm and effort she put into doing this difficult job at short notice. She will be replaced by Shelagh Deeley, who has just completed her M.B.A. at Queen's. At the same time, Leslie Owen has left to take up a position as Admissions Officer in the Registrar's Office. Anyone who has gone through the graduate program in the past eight years will know how sorely she will be missed. She is being replaced by Kathy Waugh who has previously served as assistant to the Dean of Women. We wish Alison, Ann and Leslie well, and look forward to working with Shelagh and Kathy.

*Robin W. Boadway*

# Queen's Economics Department Celebrates First 100 Ph.D.'s

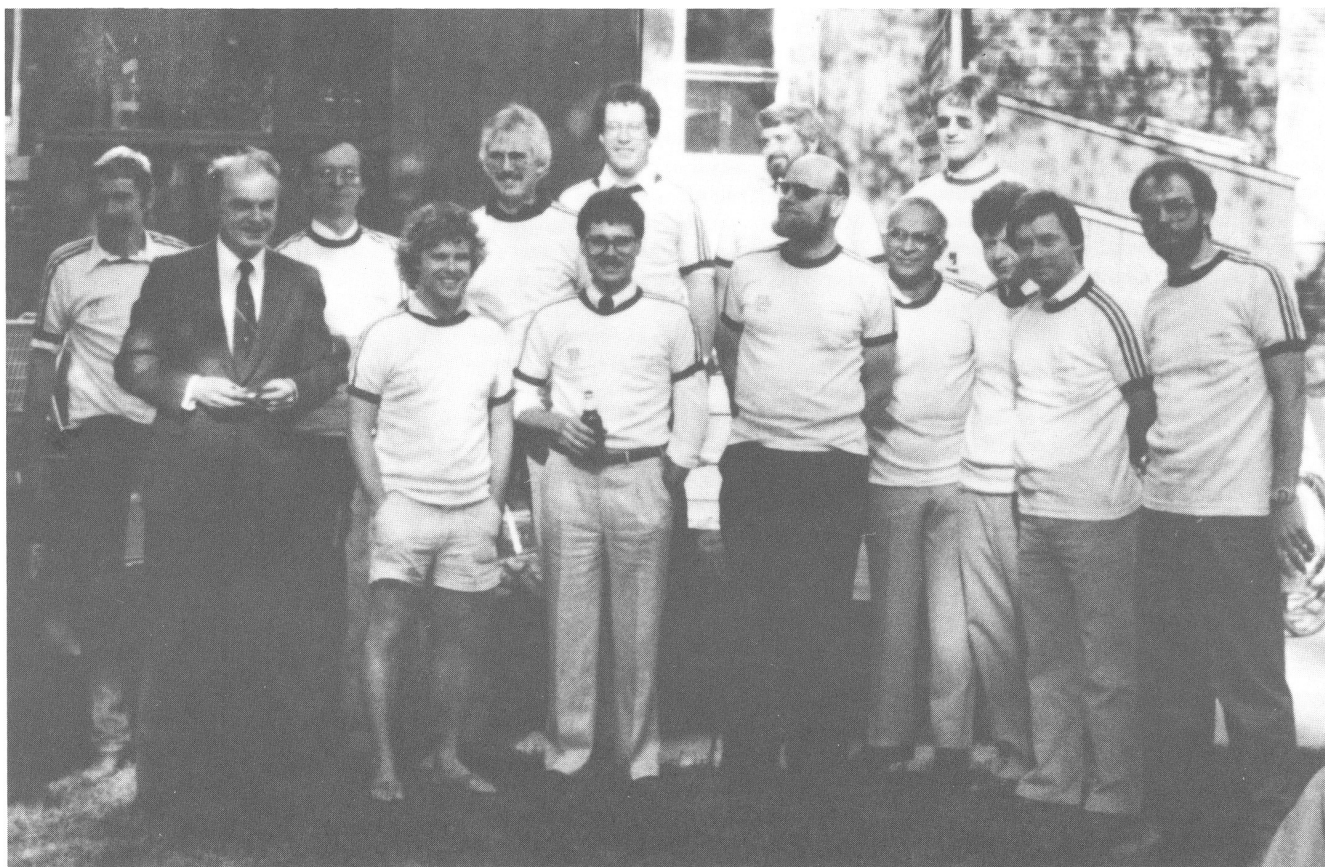
At the graduate convocation on Friday, 24 May 1985, Queen's University graduated its 100th Ph.D. in Economics. To celebrate, the Economics Department held a reception. Those attending included Queen's University Principal and former Head of the Economics Department, David C. Smith, members of the department, current Ph.D. students, and a number of delegates to the Canadian Economic Theory conference which happened to be held in Kingston that weekend. In addition, a number of the "group of one hundred" Ph.D.'s also attended. These included current Department Head Robin Boardway (#20).

The Department presented each of the "group of 100" with a team shirt complete with number. Gordon Sparks also received a shirt as team coach in recognition of his supervision of the most dissertations amongst this first 100.

The 100th Ph.D. was awarded to Edward Nosal for his thesis entitled "Incomplete Markets and Implicit Contract Theory" jointly supervised by Richard Lipsey, Ross Milbourne and Doug Purvis. Ed, who is now an Assistant Professor at Waterloo, was presented with a special set of bookends, with the Queen's Crest inset, by Principal David Smith. In his speech, Principal Smith congratulated Ed

and the Economics Department for their achievement. He said that while it was important in his new position to maintain the principle of impartiality, it was difficult not to take some personal pride in the Department's achievement since he had been among those who had initiated the Ph.D. Program in the early 1960's.

The Ph.D. program was begun in 1961-62 with the first degrees being awarded in 1966.



## QUEEN'S "FIRST 100" (ECONOMICS)

- |                                            |                                        |
|--------------------------------------------|----------------------------------------|
| 1 John Colin Henry JONES 1966              | 51 David Martin PRESCOTT 1978          |
| 2 Ernest Harold OKSANEN 1966               | 52 François VAILLANCOURT 1978          |
| 3 Francis Alfred CLAYTON 1967              | 53 Ingegerd Lilla CONNIDIS 1979        |
| 4 Laurence Alexander KELLY 1967            | 54 James Godfrey FRANK 1979            |
| 5 Andrew Leonard PLUTA 1967                | 55 Akbar Ali KHAN 1979                 |
| 6 William Robert NEEDHAM 1968              | 56 Genio Alexander STARANCZAK 1979     |
| 7 Tilakaratne Arachchige Don SIRISENA 1968 | 57 Patrick Timothy LAVERTY 1979        |
| 8 Donald Frederick BARNETT 1969            | 58 Ernest Ball STOKES 1979             |
| * 9 Jon Pollock HARKNESS 1969              | * 59 Robert Patrick FORD 1980          |
| 10 Robert Edward OLLEY 1969                | 60 Patrick Thomas OWENS 1980           |
| 11 John Macauley TREDDENICK 1969           | 61 Allen POPOFF 1980                   |
| 12 Gopal Ji YADAV 1970                     | 62 Kenneth Robert STOLLERY 1980        |
| 13 Fitzwarren Carlton BRAITHWAITE 1971     | 63 Reza RAFATI 1980                    |
| 14 Richard Anthony Lynch CARTER 1971       | 64 Sala Ismail EL-SHEIKH 1981          |
| 15 Kenneth Lyle SAGAR 1971                 | 65 Joseph Angel ITALIANO 1981          |
| 16 Simeon Iridayo AJAYI 1972               | * 66 Lawrence Cecil McDONOUGH 1981     |
| 17 Harold Gunther BAUMANN 1972             | * 67 Michael PETERS 1981               |
| 18 Stephen Glenn CLARKE 1972               | 68 Tamara Marta WOROBY 1981            |
| 19 Frank Joseph WHITTINGHAM 1972           | 69 Mostafa ASARI-RANKOUHI 1981         |
| * 20 Robin William BOADWAY 1973            | 70 John Edward LEACH 1981              |
| 21 Harry Fleming CAMPBELL 1973             | 71 Michael Sisa MATSEBULA 1981         |
| 22 John Norman BENSON 1974                 | 72 Michael John McALEER 1981           |
| 23 LLOYD Raymond KENWARD 1974              | 73 Christopher Anthony SARLO 1981      |
| * 24 Pradeep KUMAR 1974                    | * 74 Roger WARE 1981                   |
| 25 Alexander MACMILLAN 1974                | 75 Michael Joseph DALY 1982            |
| 26 John Robert FINLAY 1974                 | * 76 Allan Walter GREGORY 1982         |
| 27 Stephen Maurice TUGWELL 1974            | 77 Martin Gary John HELLSTEN 1982      |
| * 28 David LLOYD ANDERSON 1975             | 78 Fadle Mustafa NAQIB 1982            |
| 29 David Lee EMERSON 1975                  | 79 Vassilios RAPANOS 1982              |
| 30 Frank Joseph REID 1975                  | 80 Joseph Andre Jacques RAYNAULD 1982  |
| 31 Roger Thomas REID 1975                  | 81 Brian Wallace SEMOW 1982            |
| 32 David Leslie BEATTIE 1976               | * 82 Donald Alexander GILCHRIST 1982   |
| 33 Muhammad Abrar Ul HASAN 1976            | * 83 Paul Alexander Robert ROBSON 1982 |
| 34 Stanley William KARDASZ 1976            | 84 Ronald Henry LANGE 1982             |
| 35 Henryk Ignacy KIERZKOWSKI 1976          | 85 Keith Thompson MACKINNON 1983       |
| * 36 Bohumir PAZDERKA 1976                 | 86 Michael James SAMPSON 1983          |
| 37 Philip Marvin SMITH 1976                | 87 Hong HWANG 1983                     |
| 38 George William WARSKETT 1976            | 88 Farid NOVIN 1983                    |
| 39 Michael Edward KENNEDY 1976             | 89 Anthony OWUSU-GYAPONG 1983          |
| 40 Paul Christopher LANGLEY 1977           | 90 Demetrius Constantine YANNELIS 1983 |
| 41 Michael Barrett PERCY 1977              | 91 Alastair R. ROBERTSON 1984          |
| 42 Ponugoti Someswara RAO 1977             | 92 Chiichii ASHWE 1984                 |
| 43 Matthew Joseph ROBERTSON 1977           | 93 John Eden CLOUTIER 1984             |
| 44 Bankey Behari TANDON 1977               | 94 William Joseph FURLONG 1984         |
| 45 William Craig RIDDELL 1977              | 95 Jun Tong Marshall LEE 1984          |
| 46 Robert David CHRISTIE 1978              | 96 Peter Stanley SEPHTON 1984          |
| 47 Chin LIM 1978                           | 97 Vilis Hugo SKULMIS 1984             |
| 48 Muhammad RASHID 1978                    | 98 Athanasios STENGOS 1984             |
| 49 George Jerzy KOWALSKI 1978              | 99 Frank BARRY 1985                    |
| * 50 Anselm Llewellyn LONDON 1978          | * 100 Edward NOSAL 1985                |
|                                            | 101 Helen GAGLIA 1985                  |

\* Those attending reception

# Queen's Economics Department and the Macdonald Commission

Queen's has had a long-standing record of active involvement with the federal government in research, advisory and analytical roles. For example, William Mackintosh, a past principal of Queen's, was responsible for the economic analysis in the Rowell-Sirois Royal Commission on federal provincial relations. The extensive involvement of members of Queen's Economics Department in the Royal Commission on the Economic Union and Development Prospects for Canada (the Macdonald Commission) is a continuation of this record and a recognition of Queen's as an important contributor to policy analysis in Canada.

The Macdonald Commission had broader terms of reference than its predecessor, the Rowell-Sirois Commission. The terms of reference required the following from the Macdonald Commission: "inquire into and report upon the long-term economic potential, prospects and challenges facing the Canadian federation and its respective regions, as well as the implications that such prospects and challenges have for Canada's economic and governmental institutions and for the management of Canada's economic affairs." In response to its broad mandate, the Macdonald Commission established an extensive research program. The over-riding theme of the research program was the analysis of the flexibility and adaptability of the Canadian economic, political and legal systems. In order to provide a framework in which to analyze the interaction of social, institutional and economic forces over time, this analysis encompassed a retrospective view of Canadian development. It was felt that this would lead to a better understanding of Canada's current situation. To direct our understanding of the future, a prospective view of factors with potential influence in the future was also undertaken. Through this analysis, the Commission examined the appropriate institutional arrangements and policy options needed to enhance the adaptability of the political, constitutional and economic systems. However, it was also an aim that these arrangements remain consistent with our past.

There were three main divisions within the research program: Economics, Politics and Political Institutions, and Legal and Constitutional. There was a great deal of interaction between the divisions, owing to the interdependence of the issues. Each division, though, relied on experts from the academic, public and business communities to study the issues from that section's particular perspective. A final task of the research program was to bring together the results of the three divisions. The Economics research division was under the direction of **David C. Smith**, former Head of the Department of Economics, until he commenced his present position as Principal of Queen's. The projects undertaken reflect the theme of long-run adaptability of the economy. The Economics research area was further subdivided into seven sections: Macroeconomics, Federalism and the Economic Union, Industrial Structure, International Trade, Income Distribution and Economic Security, Labour Markets and Labour Relations, and Social and Economic Ideas and Issues. Each section was headed by a coordinator and an advisory committee. Members of the Queen's Economic Department were involved in all seven sections.

**Doug Purvis** and **Gordon Sparks** were both members of the research advisory group for the Macroeconomics division. The research projects undertaken in this section fit into three categories. The first consisted of reviews of the macroeconomic performance of Canada since World War II. **Doug Purvis**' "Theory and Practice of Fiscal Policy in Canada 1962-1982" and **Gordon Sparks**' "Theory and Practice of Monetary Policy in Canada, 1945-1983" were both prepared for this category.

A second category of study in the Macroeconomic section considered factors expected to be important to growth and prospects in Canada's future. **Robin Boadway** and **Steven Clark** contributed to this category with their paper "The Composition of the Government Budget, the Accumulation of Capital and Long-Run Economic Efficiency". Another Queen's contribution to the Macro-

economic research area was a joint paper by **Neil Bruce** and **Doug Purvis**, "Consequences of Government Budget Deficits".

Within the Federalism and Economic Union research area, the central considerations were the gains and the distribution of those gains that can come from the economic union of Canada while still maintaining regional diversity. **Robin Boadway**, Head of the Department of Economics, was a member of the research advisory group of this area. Broad research topics included: the functioning of the Canadian economic union, regionalism, and federal institutions and policies. A specific research project on transfer payments was prepared by **Boadway** and is contained in his paper "Federal-Provincial Transfers in Canada: A Critical Review of Existing Arrangements".

**Rick Harris** and **J.R. Baldwin** were both members of the research advisory committee for the Industrial Structure research areas. The purpose of the research in this area was to examine the adaptability of the Canadian industrial sector to changes in technology and international competition, as well as the role of government in the industrial sector. As in other areas, the approach involved both a retrospective and a prospective analysis. A difficulty in this area, as well as others, was in establishing a point of reference with which to compare the Canadian record. A paper prepared by **P.K. Gorecki** and **J.R. Baldwin**, "The Comparative Efficiency of the Canadian and American Manufacturing Sectors", contributed to the analysis.

The Macdonald Commission prepared its report on Canada's prospects within Canada's domestic context and within a global context. The International Trade section dealt with both Canada's changing economy and the changing global economy more than any of the other sections. The issues included: trade policy, domestic adjustment to external shocks, existing trade agreements (GATT), Canadian comparative advantage and others. **Rick Harris** was a member of the research advisory group and prepared

two papers for this section: "Trade, Industrial Policy and International Competition" and "A Summary of Some Recent Work on Canadian Trade Policy".

The section on Income Distribution and Economic Security researched issues related to income distribution of selected groups, by region, age and sex, as well as income of Canadians as a whole. As with the Industrial Structure section, a comparison with other industrialized nations was used to assess Canadian income distribution. The section was also concerned with factors affecting the income distribution of Canadians. A second broad topic in this area encompassed transfer payments: welfare, unemployment insurance, and in-kind transfers. **Charlie Beach** was a member of the research advisory group of this section and the section coordinator, François Vaillancourt, is a Ph.D. graduate from Queen's.

**Steve Kaliski** was a member of the research advisory group for the Labour Markets and Labour Relations research area. This area intended to present its results in four volumes. Volume one contained projects on labour management cooperation in Canada. The second volume considered Canadian labour relations. Included in this volume was **Pradeep Kumar's** "Union Growth in Canada: Retrospect and Prospect". The third volume, "Work and Pay: The Canadian Labour Market", contained **Steve Kaliski's** "Trends, Changes, and Imbalances: A Survey of the Canadian Labour Market". The fourth volume encompassed the adaptability theme, "Adapting to Change: Labour Market Adjustment in Canada". The research in the Labour area was coordinated by Craig Riddell, a Ph.D. graduate from Queen's.

The seventh division, Social and Economic Ideas and Issues undertook studies of issues which do not fall into the other areas, and thus, had a broader scope than the other areas. Examples of topics included: the role and size of government, environmental issues, non-renewable resources, and rules versus discretion. **Dan Usher** was a member of the research advisory group and prepared

a paper for this section entitled "An Analytical History of Public Expenditures". **Robin Boadway** and **Neil Bruce** also prepared a paper for this section entitled "Issues in Tax Reform".

In summary, in all seven divisions of the research program of the Macdonald Commission, members of Queen's Economics Department were members of the research advisory group, thus playing a role in determining the projects to be undertaken as well as appraising papers in their respective sections. In the majority of divisions, numerous papers have been contributed by members of Queen's Economics Department. This contribution and involvement by faculty, students and former students to one of the largest Canadian research projects ever undertaken emphasizes the role Queen's plays as a dynamic and influential academic centre.

# The John Deutsch Institute for the Study of Economic Policy

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The John Deutsch Institute has just completed its first full year with Institute status. The inaugural year as an Institute (previous reports have appeared in early editions of QED Newsletter) has been an active one. It was a period of both consolidation and growth. The operations have been guided by the basic objectives of growing while trying to maintain a high standard of excellence for existing activities.

In July 1984, the Third John Deutsch Round Table was held, thus completing the series of three that were proposed and funded in 1980. The focus of this third Round Table was *Productivity and Growth*. It featured a current events session on the federal government's proposed gain-sharing tax incentive program, four research papers dealing with various aspects of recent and projected productivity performance, and a wrap-up session. In all sessions the formal presentation elicited a lively discussion from the floor. The proceedings of this Round Table, including revised versions of the research papers and the discussants' comments as well as summaries of the discussion from the floor, are now at press and a volume should be released by mid-summer.

The year also saw a continuation of the Policy Forum Series - three forums having been held in the first half of 1985 with another planned for July. In late January Frank Lewis organized a forum focussing on the economic copies surrounding the reform of Canada's Bankruptcy Act. In early May, Alan Green and Nancy Olewiler drew together a forum on "Universality and Social Policy in the 1980's". Both forums attracted a great deal of interest and were well attended. The *Forum Reports* are due for publication later this summer. A third forum focussing on the May federal budget will be held in July.

On the publishing scene last year saw the publication of the second J.D. Round Table *Economic Adjustment and Public Policy*. In addition, three Forum Reports were set in print: *Medicare in the Age of Restraint*, *Special Import Measures Legislation*, and *Tax Reform and the Consumption Tax*.

The future plans for the J.D. Institute include a continuation of the present scale of operations on both the Round Table and Policy Forum fronts. Three to five Policy Forums a year are planned and the Round Tables are expected to be held on an annual basis. The fourth Round Table will be held in the fall of 1985, this one focussing on Tax Policy and Business Investment. The fifth Round Table is scheduled for early summer 1986, and is tentatively planned to focus on Government Policies and the British Columbia Economy.

A major new initiative in the next year will be the formation of a "Fiscal Studies Group". The formation of this group simply recognizes the fact that a major concentration of strength amongst the members in the J.D. Institute is in the area of fiscal studies. At the same time, when one surveys the various policy groups operating in Canada, none have chosen to operate in this area. This is a bit surprising since the area itself is growing in importance. Filling this void should gain rapid recognition for the John Deutsch Institute.

The operations of the Fiscal Studies Group will rationalize some of the existing operations - many of the past events have been in the fiscal area and a number of the proposed future operations would continue to be independent of the formation of the fiscal studies group. The fiscal studies group may also expand operations into a new area - research workshops. All in all - the John Deutsch Institute is a thriving operation!!



# Dr. David Smith is Installed as Principal

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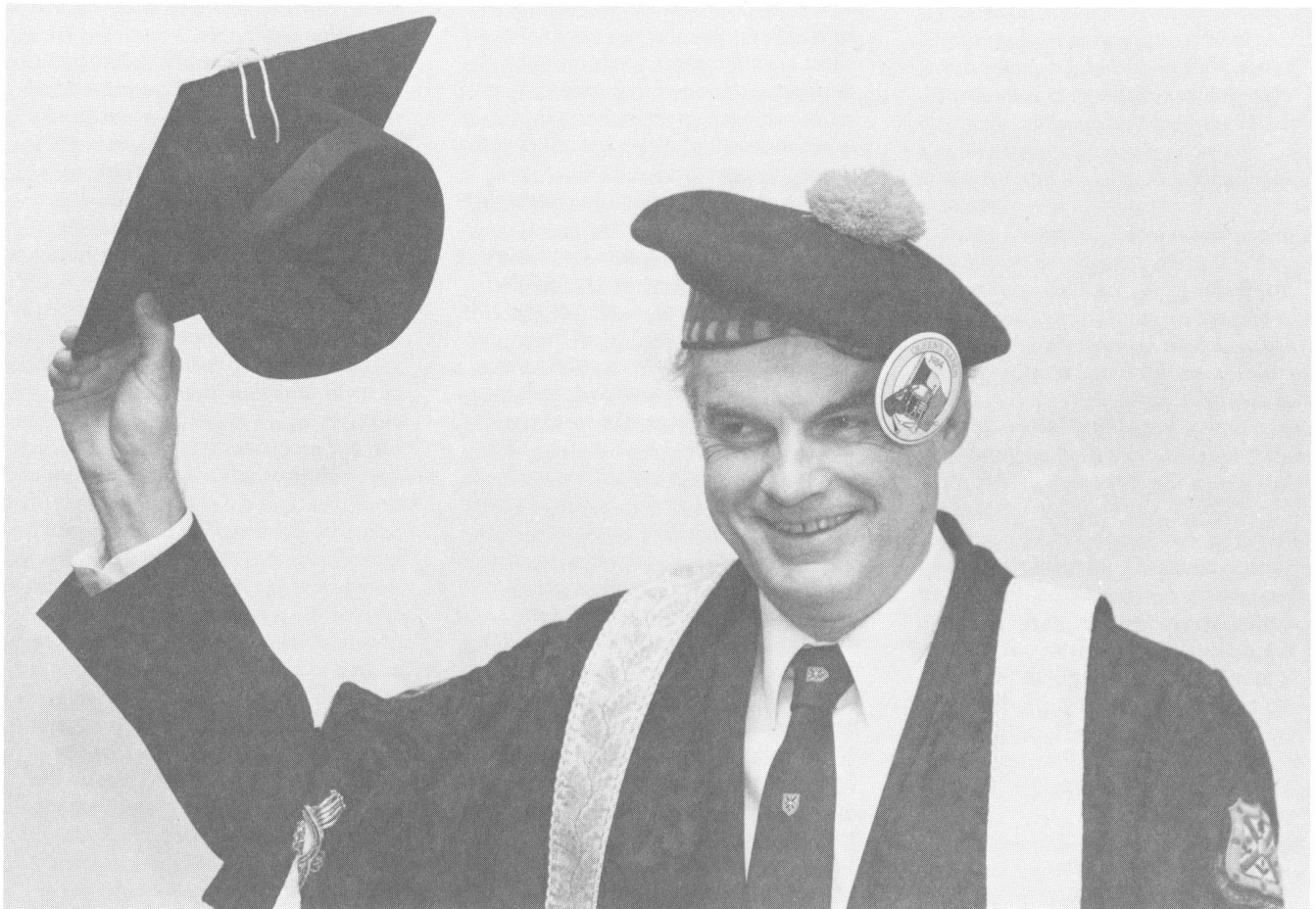
On Friday evening, 26 October 1984, David Chadwick Smith, former Head of the Department of Economics was installed as the sixteenth Principal and Vice-Chancellor of Queen's University. The installation proceedings marked the conclusion of two days of discourse on the mission of the University today. The Symposium was addressed by such outstanding people as Henry Rosovsky, Harvard, Jill Conway, President of Smith College, William McNeill, University of Chicago, Margaret Atwood and others. Several themes which emerged from the sessions were the creative tensions between the

two functions of teaching and research; the importance of the openness of universities to ideas and to people; and the fact that Universities are very much part of society and must be responsive to its needs and issues. Dr. Smith emphasized these themes in his installation address, and stressed as well that the real work of the University is at the level of the classroom, the library, the study. As he stated clearly, the final product or service of a university is at that level.

About 1200 people jammed into Grant Hall to witness the installation. The evening was a mixture of tradition and sur-

prise. David Smith received his robes of office from the President of the AMS and the Graduate Student Society and his mortar board from Dr. H.M. Edwards, the longest continuous serving full time faculty member. At the conclusion of Principal Smith's address, the Queen's band and the cheerleaders marched into Grant Hall. The Band presented the new Principal with a tam and then led the audience in a roaring Oil Thigh cheer - it was definitely a very successful evening.

We all wish David well in his new career as Principal of Queen's University.



# Labour Economics in the QED

The field of labour economics has witnessed an explosion of research activity during the past decade. Although it is often difficult to pinpoint the exact causes of such intellectual activity in specific areas, three factors seem key to an explanation of the activity in the labour area. First, beginning in the U.S., large micro data bases became available and there sparked a whole round of new empirical studies. Second, with the advent of high and persistent unemployment from the early 1970's interest was sparked on its causes. Finally, theoretical work on employer-employee contracts emerged as an area of interest.

Research in the labour field in the QED reflects these areas of research activity. What follows is a brief outline of the work currently underway.

## 1

### *Duration of Unemployment*

In the area of unemployment, Charles Beach and Steve Kaliski are currently studying duration of unemployment spells and flows in to and out of the labour force. An earlier paper of Kaliski's, "Some Aspects of the Nature and Duration of Unemployment in Canada" serves as a background to the larger project.

In this paper, Kaliski examines the controversy over the implications for labour market adjustment of a large number of short unemployment spells. One interpretation is that unemployment is not a heavy burden. The "revisionist" approach argues that unemployment is a burden, and that it is difficult for the unemployed to find employment in short periods of time. They argue that the observation of short unemployment spells is not an accurate description of labour force movements and in considering short unemployment spells and concluding that unemployment is not a burden, one is neglecting the transition from unemployment to out-of-labour force.

However, Kaliski argues that the movement from unemployment to out-of-labour force is much weaker, statistically, in Canada than in the United States, for example. This suggests that the revisionist view is *again* questioned and the large amount of short unemployment observed needs an additional explanation. This motivates further investigation into labour flows in Canada, which is a large part of the Beach-Kaliski project.

The difficulties encountered in measuring unemployment durations are also outlined by Kaliski. What is important is the number and length of *completed* spells; however, surveys show a picture at a moment in time of ongoing unemployment spells. Two biases are encountered: the interruption bias and the length bias. Longer spells are more likely than shorter spells to be "caught" by the periodic survey. Both these biases, then, need to be taken into consideration when calculating duration of unemployment spells.

Using micro data on persons' unemployment experience, Beach and Kaliski have managed to adjust for these

biases (as well as for others such as seasonality and recall bias) in a flexible fashion. Using distribution-free methods based on Lorenz curve analysis, applied to unemployment spell durations, they have been able to highlight the distributional burden of unemployment through the labour force in 1978 and 1981.

Beach and Kaliski are also looking at the determinants of probabilities of changing from one labour force state to another. There are three such labour force states: employment, unemployment, and not in the labour force. Using disaggregated micro data, they are able to obtain more detailed results than previous studies on transitions into and out of unemployment spells, so one can evaluate the functional similarity between being unemployed and simply dropping out of the labour force.

Why are we interested in duration of unemployment spells? One reason is to evaluate the incidence and burden of unemployment across the labour force. Another is to analyze the effects of unemployment insurance policies. Through the 1970s there have been various amendments to the unemployment insurance rules. The generous 1971 increases in unemployment insurance led to increases in duration of unemployment spells, as opposed to increases in number of spells of unemployment. Did the 1979 changes, which made unemployment insurance provisions less generous, affect the number of spells or the length of each spell? Beach and Kaliski found that the principal effect was on duration, not frequency and that the group most affected were prime-age males. The changes increased the propensity to move from unemployment to employment and reduced that to remain unemployed. This is reasonable since the costs of unemployment have increased. The approach of Beach and Kaliski indicates that the policies of 1979 did indeed reverse the changes made in 1971, even though their purported aim was to affect frequency.

In a related area of labour market studies, D.C. Smith presented a paper "Labour Market Imbalances in the 1980s: A Review of Three Perspectives" at a Queen's University Conference on Cana-



dian Labour Markets in the 1980's. The imbalances arise when skills and jobs do not match. Some sectors experience a shortage of skilled labour and others an excess supply of labour of structural unemployment.

In his paper Smith critically analyzes three reports which look at the long run outlook in the labour market. While questioning the validity of some forecasts, he points out that even if they are incorrect in magnitude, the direction of change and the possible areas of concern are nevertheless important to know and understand. In a highly uncertain world there is a need for continuous study and evaluation of developments in labour markets. He feels all three reports give too little attention to the role of institutions and labour market adjustments. Smith's previous work on Unions shows how important their role can be.

Finally he stresses that the general deterioration in job prospects masks the problems of individual sectors. With a large enough pool of unemployment no skill appears to be in short supply. Policies undertaken to create jobs may end up exaggerating imbalances.

## 2 *Contract Theory*

Implicit and explicit contract theory are micro approaches to labour market phenomena which provide useful tools for modelling both unemployment and other aspects of the labour market. Richard Arnott and Lorne Carmichael have both done work in this area.

In a series of three papers, Richard Arnott has examined the structure and characteristics of multi-period employment contracts in a world with incomplete insurance markets. Uncertainty arises from asymmetric information regarding job satisfaction. Employers (insurers) can only observe a quit, not job satisfaction. Moral hazard problems arise when implicit insurance (being paid a wage in excess of net marginal product) is provided against quitting.

In the first paper, firms do not consider the effects on the contracts offered by other firms when deciding what insurance to provide in the form of extra wages. Therefore, there are externalities which cause potential market failure. Under the model of the second paper the competitive equilibrium set of contracts is inefficient in a situation of incomplete insurance markets due to its inability to deal with the moral hazard problem. If there is a provision for implicit insurance of job loss (quits) there will be excessive labour turnover, and a resulting deadweight loss. Therefore, the social optimum requires a trade-off; increasing (implicit) insurance decreases labourers' risk, but results in excess labour turnover.

In the third paper, a model with firm-specific shocks is presented. In traditional economic theory, workers earn a wage equal to the value of marginal product of labour. If there is a shock to a firm, for example, if demand decreases, wages fall since the value of the marginal product has fallen. Job search costs and reallocation time are assumed, traditionally, to be zero and instantaneous. However, this is *not* the case. Search costs are not zero, and workers are exposed to a risk of falling wages. If firms are less risk-averse than workers, they will provide insurance.

Only partial insurance will be offered, due to the trade-off between the benefits from reduced risk against the losses from reduced incentives to move to firms where their labour is more efficient. The disincentives exist since firms do not observe the search activities of their workers.

The major contribution of this work is the inclusion of labour mobility which is an extension to the current implicit contract theory literature. The model generates an equilibrium which sustains many actual market phenomena such as layoffs, worksharing, on-the-job search, quits, severance pay and unemployment.

The issue addressed in these papers (the effect of incomplete insurance markets on multi-period contracts) is of interest since it may explain some characteristics of existing employment contracts; how government should correct the possible distortions if competitive employment contracts are inefficient; and the relationship(s) between labour market characteristics and macroeconomic fluctuations.

Lorne Carmichael, in a recent paper, set up a model to present the necessary conditions for a contract which efficiently controls labour turnover. In the first period of his two-period model, risk neutral workers join a risk neutral firm and gain from specific training. Workers may quit or be fired in the second period depending on both job satisfaction and work productivity. Who bears the training costs?

In previous literature, various contracts have been proposed. One such contract is a sharing contract - where the worker and firm "share" the investment in human capital. The wage is set somewhere between the marginal product of labour at that firm and the marginal product at another firm. However, the conditions of this type of contract are not compatible with the efficient contract derived by Carmichael.

An alternative contract could include severance pay if the worker is fired, or a payment by the worker if the worker quits. In this case, the firm would induce quits by influencing working conditions and job satisfaction and the worker

would induce fires by varying productivity.

The solution which Carmichael presents is a contract with a seniority rule. Workers who leave the firm are penalized, but the firm does not gain, rather it is the junior workers. Seniority rules do exist in labour contracts. As Carmichael points out, they are usually believed to be due to labour union pressure or to firms delaying worker's compensation but his analysis leads to a "more powerful" explanation of seniority rules.

Carmichael elaborates on his explanation for seniority rules in a recent note in the *AER*. He shows that one of the accepted explanations of seniority rules is based on an unrealistic assumption. In human capital theory, senior workers are likely to be more productive through an accumulation of skills and training. Then, during a slump in business, it is natural to lay-off the less productive workers, or less senior workers.

However, Carmichael achieves contrary results. Human capital theory predicts that the *most* senior workers should be laid-off first. This point has been missed since it has usually been implicitly assumed that workers continue to gain productive skills while laid-off. Therefore, we cannot use human capital theory as an explanation for seniority rules in labour contracts. A "more powerful" explanation is required, such as the previous paper.

### 3

## Strike Frequency

Mike Abbott has been studying aggregate strike frequency using Canadian data. His work makes two contributions to economics: the study of strike activity; and an indication of practical usefulness in applied work of econometric testing. Abbott evaluates the empirical performance of five proposed strike frequency models, using two alternative functional forms for each model, therefore, testing ten models. His objective is to determine which model(s) provide a valid representation of the Canadian data. Within this ultimate goal, two other goals are achieved: the effects of the 1975 wage and price controls; and the appropriateness of i) diagnostic tests of model misspecification and ii) tests of model misspecification that use non nested hypothesis testing procedures.

His results indicate that only two of the ten models are empirically valid. For these two models, the two tests used produce similar results, tentatively confirming the validity of the testing procedures. The results of the work emphasize two points: that further proposed models should be tested; and, applied work should always involve an analysis of the adequacy and validity of the proposed models.

This report is based on the following papers:

Abbott, M. "Specification Tests of Quarterly Econometric Models of Aggregate Strike Frequency in Canada", *Research in Labour Economics* Vol. 6, 1984, p. 177-250.

Arnott, Richard J. "The Structure of Multi-period Employment Contracts with Incomplete Insurance Markets", Queen's University Discussion Paper No. 395.

Arnott, Richard J., Arthur Hosios and Joseph Stiglitz, "Implicit Contracts, Labour Mobility and Unemployment", Queen's University Discussion Paper No. 543.

Arnott, Richard J. and Joseph Stiglitz, "Labour Turnover, Wage Structures and Moral Hazard; the Inefficiency of Competitive Markets", Queen's Discussion Paper No. 496.

Beach, Charles and Frederick S. Falfour, "Estimated Payroll Tax Incidence and Aggregate Demand for Labour in the United Kingdom", *Economica*, 1983.

Beach, Charles and Ross Finnie, "Total and Indirect Family Background Effects on Occupational Status and Earnings of Canadian Men", Queen's University Discussion Paper No. 440.

Beach, Charles and Ross Finnie, "Simultaneity and the Earning Generation Process for Canadian Men", Queen's University Discussion Paper No. 446.

Beach, Charles and Ross Finnie, "An Earnings-Generation Model for Canadian Men Structural Estimates", Queen's Discussion Paper No. 552.

Beach, Charles and S.F. Kaliski, "Duration Shares and the Distribution of Unemployment", Queen's University Discussion Paper No. 550.

Beach, Charles M. and S.F. Kaliski, "The Impact of the 1979 Unemployment Insurance Amendments", *Canadian Public Policy*, Vol. 9 (June 1983), p. 164-173.

Beach, Charles M. and S.F. Kaliski, "Measuring the Duration of Unemployment From Gross Flow Data", *Canadian Journal of Economics* V.XVI No. 2, 1983, p. 258-263.

Carmichael, Lorne, "Firm Specific Human Capital and Promotion Ladders", Queen's University Discussion Paper No. 452 - now published.

Carmichael, Lorne, "Does Rising Productivity Explain Seniority Rules for Layoffs?" *American Economic Review*, Dec. 1983, v. 73 #5, p. 1127-1131.

Kaliski, S.F. "Some Aspects of the Nature and Duration of Unemployment in Canada", Queen's Discussion Paper No. 350.

Smith, David, "Labour Market Imbalances in the 1980s: A Review of Three Perspectives", in *Canadian Labour Markets in the 1980s*, Proceedings of a Conference held at Queen's University at Kingston, 25-26 February 1983.

# Faculty Activities

**Martin Prachowny's** text "Money in the Macroeconomy" will be published by Cambridge University Press in late 1985. He is currently working on two research projects, one of these is entitled "Conflict in the Labour Market: Seniority Rules and Unemployment" – and the other project is "Macroeconomic Policy in a Conflict Environment".

**Steve Williamson** joined the Department this past year, having completed his Ph.D. at the University of Wisconsin-Madison. The title of his thesis was "Four Essays on Financial Intermediation". Since arriving at Queen's, Steve has been working in the area of credit rationing, and has been active in the Macro Workshop. He received an SSHRCC post-doctoral fellowship award (September 1985 to August 1986) for research on the topic "Asymmetric Information and Credit Markets". Steve presented papers at the ASSA meeting in Dallas Texas, December 1984 ("Product Selection in Financial Intermediation, Optimal Money Growth, and Central Bank Lending") and at the CEA meeting in Montreal, May 1985 ("Costly Monitoring, Financial Intermediation and Equilibrium Credit Rationing"). He was also a visiting speaker at the University of Western Ontario in March 1985.

**Charlie Beach** has had several articles accepted for publication. One of these, entitled "Prizes in an Industrial Union Environment" (with Rick Chaykowski) appeared in the *Journal of Labour Research*. He continues his major research project, "Study of Labour Market Behaviour in Canada" with Steve Kaliski. In addition, he is a research associate with Robin Boadway and Neil Bruce on a project for the Ontario Economic Council – "Taxation and Private Savings Behaviour in Canada". He and James MacKinnon hosted the first annual meeting of the Canadian Econometric Study Group. This was a very successful conference attended by a large number of enthusiastic econometricians. Charlie was elected as the first permanent Secretary of the newly formed Group. He was also invited to become a member of the NBER's Conference on Income and Wealth.

**Klaus Stegemann** spent the fall term as Visiting Scholar in the Department of Economics, Harvard University, where he presented a paper, which he has written jointly with Scott Gordon, on "The Market as a Commons: Is Catching Customers like Catching Fish?" This paper has been accepted for publication in *De Economist*. The report of a Policy Forum of the John Deutsch Institute which he had organized last summer has been published under the title "Report of the Policy Forum on Special Import Measures Legislation" (Klaus Stegemann – Rapporteur). His article on "The Social Costs of Monopoly in an Open Economy" and a shorter note appeared in *Canadian Journal of Economics*, November 1984. Klaus also delivered the Canadian contribution to a OECD Symposium on Consumer Policy and International Trade in Paris and presented a paper at the annual conference of the Atlantic Economic Society in Rome. His current research deals with provisions for price undertakings in Canada's new Special Import Measures Act.

**Robin Boadway** continues as Head of the Economics Department while finding time in his busy schedule to deliver many papers at conferences, as well as publish numerous articles and textbooks. The latter include "Welfare Economics" with Neil Bruce, "Public Sector Economics", Revised Edition, with D. Wildasin, and "Canadian Tax Policy", Revised Edition with Harry Kitcher. His articles have appeared in *Canadian Journal of Economics*, *Economic Enquiry*, *Scandinavian Journal of Economics* and *Journal of Public Economics*.

**James MacKinnon** has had another busy year. He chaired the Senate Computing Committee during 1984-85, and was co-host with Charles Beach of the first Canadian Econometric Study Group Workshop, held at Queen's in September 1984. James presented papers at such disparate institutions as York University, Duke University and the University of Amsterdam, as well as at various scholarly conferences in North America and Europe. He published "Model Specifica-

tion Tests Based on Artificial Regressions" in the *International Economic Review* and "The Interpretation of Test Statistics" in the *Canadian Journal of Economics*; both these papers were joint with Russell Davidson. He also published "A Convenient Way to Estimate Linear Regression Models with MA(1) Errors", with Glenn MacDonald, in the *Canadian Journal of Economics*, while several newer papers were accepted for publication in various journals. Despite his full agenda, James can often be prevailed upon to give advice to puzzled faculty members who are plunging into the complex world of personal computers, mainframes and computer networks.

Preparing the Hartwick-Olewiler textbook *Economics of Natural Resource Use* (New York: Harper & Row) due out in October 1985, (in time for Christmas) kept **John Hartwick** chained to his desk. He presented two papers to appear in conference volumes: "Five Types of Externalities in the Predator-Prey Renewable Resource Model" at Laval University in June and "Primary Producing versus Industrial Regions in Interregional and International Trade" at the International Institute for Applied Systems Analysis, Laxenburg, Austria in October. He kept up his work in research and development economics, writing a long paper on bookpublishing and another on the persistence of suboptimal technologies.

Since August, **Jack Mintz** has been on leave from the QED on executive interchange in the Department of Finance. For the period 1984-86 he is Special Advisor to the Corporate and Resource Tax Analysis Branch. Since our report, Jack has been active in the publication area. He and Robin Boadway and Neil Bruce have had several articles published. Among these is one in the *Canadian Journal of Economics* (Feb. 1984), entitled "Taxation, Inflation and the Effective Marginal Tax Rate on Capital in Canada". He has also delivered papers at a number of conferences including one given to the Canadian Economic Theory Conference titled "Tax Competition among Members of a Federal State".

**Dave Backus** spent the year enjoying the intellectual climate at the University of Southampton, England. He has had several articles accepted for publication, some of them in conjunction with John Driffill. Among these are "Inflation and Reputation" (AER) and "Unemployment and Policy Credibility in the U.K." (REStud). He has delivered papers in London, Edinburgh, and Renvyle.

**Frank Lewis** continues to study the role played by Railways in Canadian Economic History. He is currently analysing the formation of the Canadian National Railway using a model of bankruptcy and in February he was the organizer of a Policy Forum on Reform of the Bankruptcy Act for the John Deutsch Institute. His interest in children induced him to write a paper on the "Demand for Life Insurance". For the past two years, Frank has been teaching the Advanced Graduate Micro Theory course. Are there no limits to what an economic historian will do?

**David Smith** assumed the Principalship of the University on 1 September 1984. For much of the year preceding this he continued to serve as Research Director for the Macdonald Royal Commission. These activities kept him constantly "on the road" between Kingston and Ottawa. It is hard to imagine anyone being busier than David.

**Steve Kaliski** has spent a great deal of time in the past year working on a joint project with Charlie Beach. This project was financed by an SSHRCC grant and is entitled "Labour Market Behaviour in Canada - an exploration with Microdata". Some of the results of this study have been published or submitted for publication. Others are forthcoming. He has completed a study, "Trends, Changes and Imbalances, A survey of Canadian Labour Market" for the Royal Commission on the Economic Union and Development Prospects for Canada (The Macdonald Commission). His article "Why Must Unemployment Remain So High?" was published in *Canadian Public Policy*, June 1984. Steve has been elected

Program Chairman of the Canadian Economics Association for 1985-6 which, in effect, makes him the next President of this Association.

**Bentley MacLeod** spent the fall of 1984 at CORE in Belgium. While there, he was engaged in preparing articles for submission to various journals. Bentley attended and delivered papers at a number of conferences. Included among these was a paper "On the Effect of Sunk Costs" delivered at a workshop at Scholars Nord Kirchen, Germany and also at the European Meetings of the Econometric Society, Madrid Spain.

While in Australia last summer, **Ross Milbourne** delivered a paper entitled "Financial Innovation and Monetary Aggregates: A Theoretical Approach" at the Econometrics Society Meetings in Sydney in August 1984. He received an SSHRCC grant for research on the topic "Financial Innovation and Monetary Policy". During the past year, Ross served as co-chairman of the very busy Macro Workshop which hosted a large number of visiting speakers.

**Mary MacKinnon** has received her D.Phil from Oxford. The title of her thesis was "Poverty and Policy: The English Poor Law 1860-1910". At present she is working on several papers based on the thesis. She is a very welcome addition to the small but enthusiastic group of Economic Historians and, what may be even more important, has become a mainstay of the QED Hockey Team. She and Alan Green received a Research Grant from the Department of Labour to study labour market adjustment in Canada during the Great Depression. This complements her work with Nick Crafts (Oxford), of structural unemployment during the 1930's.

**Gordon Sparks** has spent a great deal of time in the past year advising and working on a study for the Macdonald Royal Commission on the Economic Union and Development Prospects for Canada. He was a member of the Research Advisory Group (RAG) on macroeconomic aspects

of the post war Canadian Economy. His research study "Theory and Practice of Monetary Policy in Canada, 1945-1983" was completed in December. Gordon also completed the second edition of the text "Macroeconomics" (with R. Dornbusch and S. Fischer). This text will be adopted by many universities in the Fall of 1985.

The ultimate honour for "Sparky" came when he was named "Coach of the Year" at a gathering to celebrate QED having graduated one hundred Ph.D.'s since the program began. Gordon was given the award in recognition of the fact that he had supervised most Ph.D. theses among the first 100 graduates.

**Nancy Olewiler** returned to Queen's from a leave spent at M.I.T. and Australia. Her book "The Economics of Natural Resource Use" co-authored with John Hartwick is to be published in 1985 by Harper and Row. Having spent many hours coordinating B.A. honours essays this year, she is now completing a project for the Economic Council of Canada on a natural resource crown corporation (the Potash Corporation of Saskatchewan). Nancy is currently working on an estimation of natural gas rents in Alberta and the benefits of reducing acid rain in Ontario. Rumour has it that she and Rick Harris will *not* be on leave next year.

**Slobodan Djajic** spent the first part of the year at Queen's and the winter term at Columbia University in New York. His research has been focused on a number of topics, primarily in the area of international trade, and was reported in the following papers: "A Model of Trade in Exhaustible Resources", Q.U.D.P. #607, "An Equilibrium Model of Guest-Worker Migration", Q.U.D.P. #613 (joint with Ross Milbourne), "Intersectoral Adjustment and the Dynamics of Wages and Employment Opportunities", Q.U.D.P. #603 (joint with Doug Purvis), "Current-Account Effects of a Temporary Change in Government Expenditure", "Government Spending and the Optimal Rates of Consumption and Capital Accumulation", and "Temporary Quotas and the Current Account". His paper on "Human Capital, Minimum Wage and Unemployment: A

Harris-Todar Model of a Developed Open Economy", Q.U.D.P. #575, is scheduled for publication in the August 1985 issue of *Economica*, and a paper on "International Migration, Remittances and Welfare in a Dependent Economy", Q.U.D.P. #591 will appear in the *Journal of Development Economics* in 1986. During the academic year 1985-86, he will be on leave at the Institutes for International Economic Studies in Geneva and Stockholm.

**Alan Green** has had an active year on the publication scene. His "Productivity and Labour Costs in the Ontario Metal Mining Industry" (co-authored with Ann Green) has been published by the Ministry of Natural Resources in their Mineral Policy Studies Series. The monograph "Productivity and Price: The Case of Gold Mining in Ontario" was published by the Centre for Resource Studies, Queen's 1984. In addition, the article "Productivity and Technological Change in the Canadian R.R. Sector" is forthcoming in the volume *Long Term Factors in American Economic Growth* (University of Chicago Press, NBER). Alan also delivered several papers at conferences; among these was one on "New Estimates of Canadian Economic Growth: Some Revisions" delivered to the Social Sciences and Humanities Conference. Alan's text on Canadian Economic History is well on the way. He and John Baldwin continue to work on their project on the "Evolution of the Canadian Manufacturing Sector".

**Dick Lipsey**, on leave from the Department during the past academic year, served as special adviser to the C.D. Howe Institute. His introductory textbook "Principles of Economics" (with Steiner and Purvis) continues to be a very popular text used widely both in Canada and abroad. He writes on a continuing series of articles on current economic policy issues for the *Financial Post* with Doug Purvis.

**Lorne Carmichael** returned to a full teaching load this fall after a year in California as a National Fellow at the Hoover Institution at Stanford. In 1984

his article "Reputations in the Labor Market" appeared in the *American Economic Review*. In 1985 he has two articles forthcoming, "Wage Profits, Layoffs, and Specific Training: Comment", in the *International Economic Review* (October) and "Is the Unemployment in Efficiency Wage Models Involuntary?" in the *American Economic Review* (December). Lorne is now a member of the Editorial Advisory Board of the *Canadian Journal of Economics*, and an Advisory Editor of *Economics Letters*. In May of 1985 he organized and hosted the tenth annual Canadian Economic Theory Conference at Queen's. He will be on leave from 1 January to 30 June as a visiting professor at the University of Washington in Seattle.

**Dan Usher** has spent his sabbatical year at the NBER in Stanford. Before arriving at Stanford he was engaged for several weeks as a consultant on the Harvard Indonesian Project dealing with trade policy for that country. While at the NBER, Dan has been working on a book provisionally entitled, "The Economics of Efficiency". In addition, he has produced three papers. Among these is one with the intriguing title, "The Shoe Makers and the Prime Minister: The Infra Marginal Product of Labour". Several other journal articles have been accepted for publication. Among these is "The Value of Life for Decision making in the Public Sector" to appear in *Social Philosophy and Policy*, 1985.

**Tom McCurdy** had his SSHRCC post-doctoral fellowship renewed for twelve months beginning September 1984. The topic of research for this fellowship is "Macroeconomic Implications of Structural Shocks". As part of this project he has recently produced a report on his large empirical study "(Un)employment Effects of Microelectronic-based Technical Change: A Multisectoral Study for Canada". He presented papers based on this work at the Canadian Economics Association Meetings in Montreal, the Studies in Communication and Information Technology interdisciplinary group at Queen's and the unemployment

workshop. This research has also been supported by an Advisory Research Committee grant. Tom is continuing his study of exchange rates which began with his ARC grant to analyse speculation, structural change, and stability in asset markets. His work in this area with Allan Gregory of the University of Western Ontario includes "Testing the Unbiasedness Hypothesis in the Forward Foreign Exchange Market: A Specification Analysis", which was published in the *Journal of International Money and Finance* last December. Tom has presented seminars on this work at several places including the 1985 International Symposium on Forecasting held in Montreal. Tom's work with D. Yannelis includes the paper "Simultaneous Price-Quantity Adjustments in the presence of Spillovers across Markets" which he will present at the World meetings of the Econometric Society in Boston. Besides attending and being a discussant at several other conferences, participating on University committees and in interdisciplinary activities such as AIESEC, Tom finds time to be a proud father.

**Rick Harris** gave a large number of Seminars in 1984, many of these to universities in Australia and New Zealand, while he was on sabbatical. He presented papers at such conferences as the Australian Meetings of the Econometric Society, Sydney Australia as well as at four trade policy conferences of the Royal Commission on Canada's Long Term Economic Prospects, Ottawa (Macdonald Commission). He has had a number of journal articles published. These include one entitled "Applied General Equilibrium Analysis of Small Open Economies with Scale Economies and Imperfect Competition", *American Economic Review* and one entitled "Competition with Lumpy Investment", *Rand Journal of Economics*. Several other articles have been accepted for publication. These include an article with D. Cox, "A Quantitative Assessment of the Economic Impact on Canada of Sectoral Free Trade with the United States" forthcoming *Canadian Journal of Economics*.

**Marvin McInnis** is off on sabbatical in 1985-86 after serving a term as Undergraduate Chairman. It will be a welcome break from a time-consuming task that oversaw the graduation of the largest classes ever of Queen's honours B.A.'s in Economics and the development and introduction of some important curriculum changes. A year at the Agricultural History Center in Davis, California may give Marvin the opportunity to make some real progress on the book he has been trying to write on Canadian Agricultural development. In the meantime he continues to work on the Historical Atlas of Canada. That project is beginning to come to fruition although there is still quite a bit to be seen through to completion. There are now completed drafts of two plates which Marvin has contributed. One, on Population and Production in 1891, will introduce Vol. III of the atlas. It, along with another plate on patterns of migration in the 1891-1921 period is to the point of moving into the formal cartography stage of preparation. Research on two other plates on demographic change is also nearing completion.

Marvin saw the publication of his paper on "Marketable Surpluses in Ontario Agriculture", which appeared in the Fall 1984 issue of *Social Science History*. His article (with Frank Lewis) on "Agricultural Output and Efficiency in Lower Canada, 1851" also appeared in *Research in Economic History*. He was also busy with conferences and lectures. He acted as a discussant at two sessions of the annual conference of the Social Science History Association, held at Toronto in November, and in the spring of 1985 he presented a paper on 'The Fertility Transition in Canada' at the 20th General Conference of the International Session for the Scientific Study of Population, held in Florence, Italy. While overseas he also attended, as co-organizer and discussant, a workshop on the Emergence of a World Economy in the Nineteenth Century held in Germany in preparation for the World Congress of Economic History to be held in Berne Switzerland next summer. Marvin will be presenting a theme paper at that con-

ference based on the sessions of the workshop held this June in Germany.

Last year was a busy year for **Mac Urquhart**. He spent the fall term at Australian National University as a visiting Research Fellow. He was in residence at ANU from mid August to mid December. Since returning he has carried on his usual busy teaching schedule as well as continuing his work on the re-estimation of the Canadian National Accounts. He capped this busy year by receiving an honorary doctorate degree from Bishop's University, Lennoxville, Quebec.

**Jon Harkness** returned to the Queen's Economics Department from a year spent in England at the University of Warwick. His article, "Optimal Oil Pricing in a Small Open Economy: A Macroeconomic Perspective", appeared in the *Canadian Journal of Economics* (November 1984). Several other articles are forthcoming, among these "OPEC, Rationality and the Macroeconomy" (*Journal of Macroeconomics*), also, "Optimal Exchange Management in a Small Open Economy" in *Journal of International Money and Finance* (March 1985).

**Gordon Fisher** continues as the Chairman of Graduate Studies. During his "reign" the one hundredth Ph.D. degree in Economics was conferred. He has been very active internationally, delivering several papers in Spain and England, and accepting an invitation by the U.K. Econometric Study Group (which he founded) to attend a Conference in Honour of Denis Sargan. He also addressed various Canadian Conferences, including the new Canadian Econometric Study Group Conference held at Queen's. He is currently completing a monograph on corporate taxation with Jack Mintz and Jan Bartholdy for the Economic Council of Canada. He has also completed two pieces in econometric theory with Noxy Dastoor of Liverpool and Richard Smith of Manchester. The former demonstrates the formal equivalence of point-optimal and Cox tests; the latter sheds new light on Durbin-Wu-Hausman testing and extends its application in

various ways. During the year he has been Visiting Scholar at Concordia University where he undertook a study of natural gas consumption in cooperation with Gaz Metropolitan.

**John Baldwin** has been active teaching as well as attending conferences at which he delivered papers. Several of these were given to the Industrial Structure Research Group of the Royal Commission on the State of the Economic Union of which he is a member. In addition to his work on trade and industrial structure, his other main area of interest is a joint project with Alan Green on the development of the Canadian Manufacturing Sector: 1890-1930. He continues to act as enthusiastic co-ordinator of the Honours B.A. Thesis Seminar.

**Don Wood** continued as Director of the School of Industrial Relations and the Industrial Relations Centre. This is the second year that students have been admitted to the Master's Program of Industrial Relations. By every indication, the school is flourishing. Don presented the usual large number of papers and talks to various groups across the country. He was given the Distinguished Service Award by Queen's - a very great honour.

**Doug Purvis** continues as Director of the John Deutsch Institute for the study of Economic Policy. As such, he hosted the third John Deutsch Round Table in July 1985, this one on Productivity. He is co-author of the recently published *Economics*, 5th Canadian Edition (with R.G. Lipsey and P.O. Steiner). His monthly column, written jointly with R.G. Lipsey, appears in the *Financial Post*. He co-authored two papers for the Royal Commission on the Economic Union and Development Prospects for Canada and prepared an overview and summary of the commission's symposium on European and Australian Macroeconomic Experience. He also served as a member of the Economic Advisory Panel at the Department of Finance and on the proposal committee for the summer 1985 World Congress of the Econometric Society. As reported by the Head in his



message Doug was invited to deliver the Harold Innis Memorial Lecture at the Annual Meeting of the C.E.A.

**Mike Abbott** is once again chairman of the Department of Economics Computing Committee. He serves on a number of university Computing Committees as well. He is the "fount of knowledge" for all puzzled upper year students with computing problems. He is also currently serving as a member of the Principal's Advisory Committee on Equal Pay Issues. His article "Specification Tests of Quarterly Econometric Models of Aggregate Strike Frequency in Canada" was published in *Research in Labour Economics: A Research Annual*, Vol. 6 (1984), pp. 177-250. He and Charlie Beach have received an ARC grant for "A Comparison of Wage Distributions". His other current research activities involve empirical analyses of various aspects of wage structure.

**Richard Arnott** continues his work on moral hazard and housing, and has started a new research project with Andre de Palma and Robin Lindsey (University of Alberta) on traffic congestion. He published two papers, "Unanticipated Shocks and the Maintenance and Replacement of Durable Goods" (with Russell Davidson and David Pines (Tel-Aviv University)) in the *Journal of Economic Dynamics and Control* and "Some Issues Related to the Economics of Non-Stationary-State Traffic Flow" in *Revue Économique*. His globe-trotting continued, with a lecture tour in northern Europe, a visit to Tel-Aviv University, and a consulting trip to the Sudan. He serves on several editorial boards and is urban and regional economics editor for the *Encyclopaedia of Economics*.

**Neil Bruce** has been on leave at U.C.L.A. for the 1984-85 year. He and Robin Boadway have had their text "Welfare Economics" published by Basil Blackwell, Oxford. His publications for the year also include an article for the *Scandinavian Journal of Economics* (written jointly with R. Boadway and J. Mintz) as well as one for the CJE entitled "Taxation, Infla-

tion and the Effective Marginal Tax Rate on Capital in Canada". While on leave he continues to work on various projects - among them a study on 'Saving and Taxation in Canada' with C. Beach and R. Boadway.

**Scott Gordon**, who holds a joint appointment with Queen's and the University of Indiana, was one of the keynote speakers at the Symposium which was held at the time of the Installation of Principal David Smith. During the past year, his main work has been the writing of a book on the history and theory of constitutionalism. To quote Scott, "This is not as remote from economics as it may first appear, since the thesis is that the historical development of constitutionalism since the Renaissance, and the model of politics that underlies it, can be best understood in terms of the theory of general equilibrium".

In addition to being Dean of the Faculty of Arts and Science, **Rod Fraser** has had a busy year as Director of Research of the Commission of Inquiry on the Pharmaceutical Industry. The Commission reported to the Federal Government on 28 February 1985 and its 474 page report, which contains a fairly comprehensive description and analysis of the pharmaceutical industry in Canada, was published in May. Some seven of the special research studies commissioned are to be published shortly.

# QED List of Lists

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## Special Awards, Honours and Appointments

Steve Kaliski	President-Elect, Canadian Economic Association
Bentley MacLeod	Post-doctoral Fellowship
Doug Purvis	Clifford Clark Fellow with Department of Finance
David C. Smith	25-year Service Award
Mac Urquhart	Honourary Degree, Bishop's University, Lennoxville, Quebec
Steve Williamson	Post-doctoral Fellowship
Don Wood	Distinguished Service Award, Queen's University

## Undergraduate Honours

Medal in Economics  
**Kim Yip Louie**  
Chancellor CA Dunning Prizes  
**Victoria Margaret Barham**  
**Kim Yip Louie**  
Best B.A. Thesis  
**Victoria Margaret Barham**

EDITOR M. Ann Green  
SECRETARIAL Angela Street  
DESIGN Queen's Graphic Design Unit