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# Measuring regional effects of monetary policy in Canada


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## Abstract

This article measures monetary policy shocks and examines whether the effects of such

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New Brunswick, Nova Scotia and British Columbia are not statistically significant.

# Notes

- <sup>1</sup> Asymmetric shocks across regions are just one issue of optimal currency areas. Mundell ([1961](#)) outlines that one needs to weigh the benefits in terms of greater economic efficiency at the micro level with the costs in terms of less economic stability and wider fluctuations in output and unemployment.
- <sup>2</sup> The rationalization of industries caused by the implementation of Free Trade agreement in 1989 was another contributing factor. Gaston and Trefler ([1997](#)) show that 15% of the total drop in employment in all industries over 1989 to 1993 was due to the Free Trade Agreement.
- <sup>3</sup> This is in part because the former two provinces contribute the largest share of overall employment.
- <sup>4</sup> For more on VAR identification, see Christiano et al. ([1998](#)) and Enders ([1995](#)).
- <sup>5</sup> In this article, we did conduct analysis using the spread defined as the difference between the long-term 10-year T-bond yield, where the results remained robust. The results are available upon request.
- <sup>6</sup> The latter two studies note that energy prices improve the explanation of the exchange rate, but the sign of the coefficient is opposite of what is expected and in some cases is not statistically significant. For example, the coefficient on energy prices is negative and significant at the 1% level in the VAR model. This is not surprising as energy prices are a variable that is not included in our VAR model. The results are available upon request.
- <sup>7</sup> The results are available upon request.
- <sup>8</sup> For example, in the VAR model, the response of the exchange rate to a shock in energy prices is positive in the short run, but becomes negative in the long run. The dashed lines represent the impulse response function, and the solid lines represent the long-run response. The results are available upon request.



<sup>9</sup> They exclude the exchange rate and commodity given that the United States is a large open economy and is relatively less resource dependent than Canada.

<sup>10</sup> For details of the various budget rules, see Millar ([1997](#)), pp. 2-10.


<sup>11</sup> See Zhang et al. ([2004](#)) for a discussion and an analysis of a monetary union for East Asia.

<sup>12</sup> Hayo and Uhlenbrock (2000) find differential impact of monetary policy within Germany. An interesting question would be to compare this volatility with the volatility with Germany in the European Union with the European Central Bank conducting policy. Holman and Newman ([2002](#)) study on the effects on Canada and the United States from a monetary policy shock in the United States or Canada, where this article is a starting point in comparing the regional effects within Canada with the volatility effects from a shock in the United States.

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