

BUEC1010
BUSINESS IN THE CANADIAN CONTEXT
ASSIGNMENT #1: "CANADA'S ECONOMY & THE
POSITION OF GOVERNMENTS IN 2011."

Rules:

1. DUE DATE:

This assignment is due, *in proper written form*, before class, on MONDAY, JANUARY 23, 2012. NO lates will be accepted.

2. STYLE REQUIREMENTS:

Proper written form means properly word-processed, stapled, complete with a cover sheet which shows your name, York student number, course and name, Assignment #1, and date. Where questions require a verbal response, *write in sentences*. Where questions require a numerical response, make sure that the numbers or percentages are expressed clearly. NOTE: *Where style rules are not followed, no marks will be given.*

3. SOURCES TO CONSULT:

This assignment is based on the ECONOMIC ACCOUNTS and GOVERNMENT sections of the CANADA YEAR BOOK 2011. A link is provided on the MOODLE COURSE WEBSITE. Or, you can find it online through the Statistics Canada website (www.statscan.gc.ca). The assignment also requires you to read the article "BUDGET 2009: What previous governments did," an article from the Jan. 27, 2009 Globe and Mail written by Michael Valpy. A link to the article is also provided on the MOODLE COURSE WEBSITE.

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Answer these questions in written form, as outlined under #2 above.

(Marks are 1 for each question, except where noted.)

1. Why did investors purchase \$17.3 Billion of Canadian stocks in 2010?
- (2) 2. Why did the price of EXPORTS relative to the price of IMPORTS rise in Canada by 6% during 2011? (2 reasons).
- (3) 3. Which CANADIAN INDUSTRIES recorded the fastest employment gains in 2010, and which Canadian provinces benefited the most from this growth in employment?
- (3) 4. What happened to Canada's EXPORTS (during 4th. quarter of the year), BUSINESS INVESTMENT, and CONSUMER SPENDING during 2011?
5. Why is BUSINESS INVESTMENT (I) so important to any economy?
6. In relation to our GDP, where is BUSINESS INVESTMENT now as compared to 1996?
Why do you think this is so?
- (3) 7. What happened to Canada's REAL GDP in 2010?
Compare Canada's GDP growth in 2010 to 2009.
What happened to Canadian GDI (gross domestic income) in 2010?
8. Why do you think that Canada's EXPORTS were 29% of nominal GDP in 2010, while in 2000 they were 46% of nominal GDP?

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- (3) 9. What has happened recently in the Canadian economy in terms of a. NET LENDING, OR BORROWING; b. TRADE SURPLUS, or DEFICIT?
What is the danger of such major borrowing, and running trade deficits?

For the questions which follow, click on the box on upper right of the Economic accounts page called "FOREIGN DIRECT INVESTMENT-RISING."

10. Which of Canada's industries are the most heavily foreign-owned? Show the industries, and the proportion of foreign ownership.

11. Which four nations (or regions) have been most heavily investing here?

- (2) 12. Do you think that there any dangers to this kind of foreign ownership?
What kind of benefits, or costs, are brought here by foreign investors?

For the questions which follow, click on the "International Perspective" box on the upper right of main page.

13. In 2008, which three world nations had the highest GDP per capita?
Where does Canada rank in the data for the 30 countries presented in the Table?

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For the following questions, you need to refer to the GOVERNMENT pages of the CYB 2011.

- (2) 14. Explain in a sentence what is meant by a GOVERNMENT DEFICIT?
What was the Harper Government's deficit for 2011?

15. How many Canadians (% of population; and number) now work for Canadian Governments?

16. Since 2009, what has been the trend in the hiring of Governments?

- (2) 17. In 2010, which levels of Government in Canada hired the most new employees?

18. In which three metropolitan areas do most Federal Government employees work in Canada?

19. What are GBEs?

- (2) 20. A. For the year 2009, Compare the PROFITS of the GBE's with their BORROWING.
B. If Canada is going to reduce its debt, what does this borrowing by GBEs suggest that Canadian Governments are going to have to do with many of them?

For the following questions, you need to read the article by Michael Valpy called *BUDGET 2009*, which you can link to on the Moodle course website.

- (7) 21. A. Why did FINANCE MINISTER PAUL MARTIN decide to cut Government spending and transfers to the Provinces in 1994?
B. What were some of Martin's major reforms?
(Include in your answer his policy with respect to corporate and gasoline taxes.)
C. What were some of the results of Martin's reforms?

Bonus:

Write a conversation between Mr. Martin and Mr. Harper in which the former Finance Minister and Prime Minister tries to convince Mr. Harper that he is pursuing the wrong policies for Canada. ©

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**Business in the Canadian
Context:**

Assignment 1- Canada's
Economy & The Position of
Governments in 2011

$$\frac{30}{40} = \frac{4.5}{6}$$

By: [REDACTED]

YSN: [REDACTED]

Due: Monday January 23, 2012

Teacher: Prof. [REDACTED]

1. Investors purchased \$17.3 billion of Canadian stocks in 2010 because the Canadian dollar's average for all of 2010, at 97.1 U.S. cents, was the highest since 1976. Prices on the Toronto Stock Exchange were on average higher than in 2008 and just shy of their 2007 peak. *WHAT DID THIS SIGNIFY?*

2. The price of exports relative to the price of imports rose in Canada by 6 percent because the rise in the exchange rate and in commodity prices resulted in the largest annual increase ever in terms of trade. ✓

3. The Canadian industries that recorded the fastest employment gains in 2010 were construction, by 4.8 percent and natural resources by 3.5 percent. The Canadian provinces that benefited the most from this growth in employment were Alberta with crude oil and British Columbia for timber. *& ONE OTHER?* ✓

4. Fourth quarter exports posted the largest increase of the recovery, real business investments ended the year 14.0% ahead of its level a year earlier and consumer spending increased. ✓

5. Business investments are vital for any economy because an economy's output depends on adequate levels of capital investment and it is the savings of firms and people that make such investments feasible. (As emphasized by Dornar and Harrods). ✓

6. Business investment's share of Canada's GDP fell to 11%, the lowest since 1996. This occurred possibly because the evenly split between structures and machinery and equipment. Investment in structures as a share of GDP remained at historically elevated levels, reflecting the impact of the energy industry. For machinery and equipment, a 5.5% share of GDP was the lowest since 1963. ✓

7. After contracting 2.6% in 2-009 the GDP rebounded 3.3% IN 2010, GDI GREW BY 0.5% IN 2010. ✓

8. Possible reasoning for Canada's exports to decrease from 46%-29% of the 2008-2009 recession, the government sector switched from being a net lender to being a borrower—nearly \$90 billion in both 2009 and 2010, non-residents became net lenders, as Canada switched from a trade surplus to a trade deficit. Much of this net lending by non-residents reflected significant purchases of government bonds. *Canada's change from trade surplus to trade deficit reflects several influences. The initial switch reflected the severe drop in exports.* ✓

12.5

9. a) Recently non residents have become net lenders and the government has become the net borrowers in the economy.

b) Due to the affects of the recession, Canada has switched from achieving a trade surplus to a trade deficit instead. The danger of running a country in such debt is that the country will hit a high rate of major inflation to be able to compensate for its borrowing, resulting in lack of monetary stability in the economy. ✓

10. The Canadian industries that are the most heavily foreign owned are; manufacturing by 35% and other industries by 21%. ✓

11. The four nations/regions that have been most heavily investing here are; U.S. investors at 54.5%, the Netherlands at 9.2%, U.K at 7.5% and Asia at 11.2%. ✓

12. Possible dangers do exist to this kind of ownership. For example if there is enough investment from overseas, the economy has the potential for political risk if other nations control majority of sectors such as finance and military. The benefits brought by foreign investors is the financial backing and outside input to be able to help the economy move forward. ✓
IS GOVERNMENT-REGULATED
? IS GOVT OWNER

13. In 2008, the three world nations that had the highest GDP per capita were; Luxembourg, Norway and the United States. Canada ranks seventh on the table. ✓

14. Government deficit is the amount of government spending that has exceeded the amount of government revenue earned. *HARPER'S DEFICIT?* ✓

15. The public sector employed 3.6 million (20% of Canadians) in 2010. ✓

16. Since 2009, the trend in the hiring of governments has been; in 2010, the roster of federal general government employees (including reservists and full-time military personnel) numbered 420,685, an increase of 5,288 federal jobs from a year earlier. General government comprises ministries, departments, non-autonomous funds and organizations, autonomous funds and organizations, and non-autonomous pension plans.

17. The levels of government in Canada that hired the most employees were the federal government. ✓

18. The three areas that the Federal Government employees work is Ottawa, then Montreal then Toronto. ✓

19. GBEs are government-controlled, public corporations (financial and non-financial) engaged in selling goods and services to the public in the marketplace. ✓

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20. a) Federal GBEs (including monetary authorities) earned after-tax profits of \$4.8 billion in 2009, a decline of nearly 18% from 2008. In 2009, the net worth of federal GBEs increased 17% to \$22.6 billion. The federal government used several GBEs to add liquidity to financial markets during the 2008–2009 recession. In 2009, federal GBEs borrowed \$143.1 billion from the federal government, a 46% increase from 2008. In addition, the share capital of federal GBEs increased by 57% to \$5.0 billion.

✓
✓

b) *The Canadian government will have to raise the prices on the goods and services that they are selling to the marketplace to be able to reduced the debt of borrowing that it has incurred.*

21. a) Paul Martin decided to cut Government spending and transfers to the Provinces in 1994 in order to address the \$40 billion dollar debt by the government and the provinces a \$25 billion dollar debt.

b) Some of Martin's major reforms were; his 1995 budget cut various business subsidies by 60 per cent, reduced dairy subsidies by 30 per cent, reduced foreign aid by 21 per cent, cut subsidies for grain shipments, closed military installations and announced the axing of 45,000 civil-service jobs. Corporate and gasoline taxes were raised. Adult immigrants were assessed a \$975 landing fee. Ottawa's transfers to the provinces for health, education and welfare were rolled into one - to give the provinces greater spending flexibility, it was claimed -- but the catch was the total amount would be reduced \$7-billion over two years. Unemployment insurance was renamed employment insurance, and benefits were reduced and eligibility made harder for seasonal workers. Crown corporations Canadian National Railways and Petro-Canada were privatized. Mr. Martin whacked again in 1996: another \$1.4-billion in cuts to provincial transfers; further reductions to foreign aid and defence; the end of tax deductions for those who made child support payments.

6.5

c) Final numbers for the 1995-96 fiscal year showed Mr. Martin had bettered his own targets and was on track to bring the deficit down to \$9-billion - or 1 per cent of GDP - by 1998-99 with no significant tax increases. His work was praised by business and condemned by social activists, women's groups, many provinces and labour. In 1998, the federal government began a decade of budgetary surpluses.