

## Economic Assumptions, Presentation I

December 14, 2010

### Discussion Questions for OCACT

- 1) The main point of contention is the unresolved issues from TPAM 2007 regarding two key linkages in the derivation of the real wage differential: the earnings ratio (still at -0.2%, apart from the effects of PPACA) and the price differential between CPI-W and PGDP (moved to -0.4% in TR 2006 and not reduced in response to TPAM 2007). Another item is the level of both inflation assumptions, with implications for the real interest rate.
- 2) There is some explanation in TR 2010 and other OCACT documents of how PPACA (health care reform) affects the LR Economic Assumptions. I don't think we need a full explanation of it for this meeting, but we do need better justification of why its impact was a change of "0.1 percent" in one of the linkages.
- 3) How does the detail of what OCACT projects (e.g. the components of PGDP) extend into the stochastic framework? For example, we heard in an earlier meeting that OCACT believes the amount of uncertainty in the final distributions of the stochastic simulations is understated because not every component of the model is allowed to be subject to shocks. It would be helpful to know whether any of these economic assumptions are not varying in the stochastic simulations and why – if it is the level of detail, perhaps TPAM can offer advice on that tradeoff.
- 4) There is essentially no guidance provided in the LR Economic Assumptions document about how the values for Alternatives I and III are chosen. Given the skepticism of these Alternatives that has characterized past TPAM discussions, it would be helpful if the rationale behind these choices could be documented and justified, almost in as much detail as the intermediate assumptions in Alternative II.