

the national accounting sense. In these accounts, the tariff is treated as an indirect tax on the consumption of foreign goods. Therefore, in the case of a tariff-reduction simulation in which United States prices and the exchange rate are held constant, there is no change in the price of the imported goods to Canada, as a country, but the goods appear cheaper to the Canadians who consume them. In its basic structure, TIM understates one likely effect of a reduction in trade prices in that a lowering of the cost of imports may lead to a voluntary reduction in prices on the part of Canadian producers who feel that their market is threatened by cheaper imports. In our analysis, we have compensated for this by reducing selected returns to capital and industry price margins.

1.2.1.3 Production Function - Some of the differences between the this study and others can be explained by the different assumptions concerning the production function. In TIM, constant returns to scale are assumed. The gross output of an industry is assumed to be a function of not only the amount of capital and labour that is employed but also the necessary amounts of output from other industries. The tradeoff between capital and labour is captured by using an inverted Cobb-Douglas production function for estimation of employment requirements. However, the intermediate inputs from other industries are consumed in fixed amounts in the Leontief style of production function. In a model in which increasing returns to scale are assumed, productivity can be increased merely by increasing the level of inputs. In TIM, productivity is increased through time as