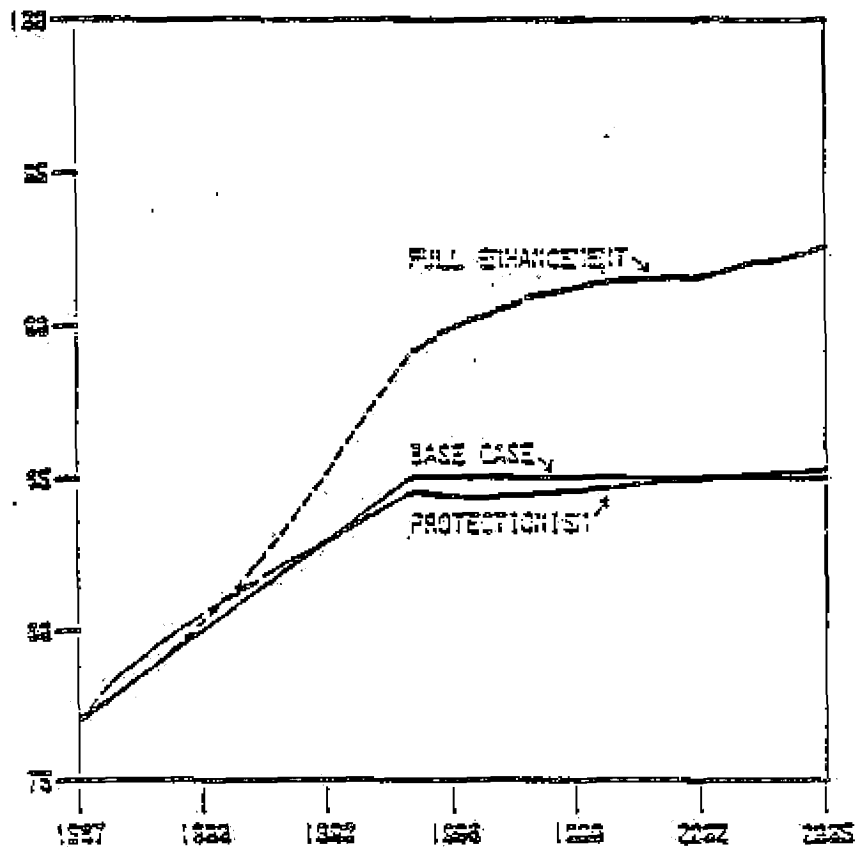


direct and induced effects of trade enhancement. Tightening labour markets, thereafter, begin to generate increased wage demands that are not fully offset by productivity gains, and inflation accelerates to approximately match that of the base case setting. Again, if mechanisms can be found in later years to relieve the pressure on labour markets, then the acceleration of inflation would be dampened. It should be noted also that a consequence of the later inflation, given our "rule" for maintaining base case "real" interest rates, is to raise nominal interest rates back to the levels of the base case.

Figure 5

EXCHANGE RATE
CENTS U.S. PER \$ CANADIAN



We anticipate that the Canadian dollar would appreciate against its United States counterpart with trade enhancement. This reflects reduced inflation, improved growth prospects, and in the early years, an improved current account.