

domestic demand conditions for Canadian manufacturers than the early 1990s.

Using these periods as natural experiments, Baldwin and Yan find that a one percentage point decline in the Canadian dollar increases the probability that a non-exporter will start exporting by around one percentage point, while a similar increase in the real exchange rate increases the probability that an active exporter will exit from export markets. A one percentage point own-tariff reduction has the same impact on export market entry as a one percentage point depreciation of the dollar.

Importantly, they also show that the overall productivity advantage of exporters over non-exporters is affected by currency developments. The superior performance of Canadian export-market entrants and continuing exporters was reinforced in the 1990-1996 period when the Canadian dollar depreciated. The advantage, however, was reduced in the 1984-1990 when the Canadian dollar appreciated and almost completely eliminated in the 2000-2006 when the dollar appreciated even more steeply.

The Baldwin-Yan results suggest that the export market entry/exit dynamic driven by real exchange rate fluctuations is an important factor in the Canadian productivity growth puzzle. As well, these results lend support to the Baldwin and Lyons (1996) argument that large misalignments of exchange rates over extended periods entail welfare costs due to hysteresis effects in trade, with entailed industrial dislocation and scrapping of sunk assets.

Exposure to international trade impacts on a firm's productivity in a variety of ways, including by influencing the scale and scope of its production, which in turn are important considerations in its technology decisions. Alla Lileeva and Johannes Van Biesebroeck, in their paper, "The Impact of Trade and Technology Adoption on Production Flexibility in Canadian Manufacturing," examine scale and scope economies in Canadian manufacturing plants, how these are affected by technology choices and how technology choices are, in turn, influenced by trade.

Manufacturing activity is usually assumed to be subject to positive scale economies, at least over an initial range, since