

2. CASE ASSUMPTIONS

2.1 Base Case Profile

The nature of the base case used can influence impact results. If the economy is operating at "full" employment, changes in conditions that generate substantial, direct positive impacts on employment in such circumstances would generate significantly different overall results as compared to a case that includes large numbers of unemployed. As well, relative prices of internationally traded commodities can influence both detailed industry and overall results. For example, an assumption of relatively lower prices for those commodities in which Canada is a "price-taking" exporter, would generate comparatively small income gains for the Canadian producer in the event of trade policy changes. In turn, this would limit future investment of that industry. Finally, base case interest rates can notably influence impacts on government balances, and incomes of other sectors. If real interest rates are high, direct positive (or, negative) effects on government balances are amplified.

The base case used for this study is Informetrica's Post 1-85 Forecast, dated August 12, 1985. Appendix C provides a summary of the outlook. Recent federal policy decisions are incorporated, including the Western Accord, the November 1984 Economic Statement, and the May 1985 federal budget. For the very near term, the outlook is based on the view that United States growth will slow to less than 3 per cent in 1985 and 1986, that interest rates will vary little over the next two years, and that the surge in Canadian investment that has recently