

does the exchange rate. Second, the (expected) real exchange rate is not used to measure relative prices. Instead, the real exchange rate is decomposed into its components and each component enters the model separately. This specification is motivated by empirical results for Canadian import demand. Deyak, Sawyer, and Sprinkle (1993), among others, find little support for the assumption that Canadian import demand is homogeneous in prices. Instead, consumers respond differently to changes in domestic prices and foreign prices. In any event, the homogeneity postulate imposes a restriction on the model that can be assessed statistically. Third, uncertainty does not have differential effects over the sample period under examination. That is, we find $\bar{p} > p/e$ over the entire sample. Propositions 3 and 4 then suggest that $\beta_5 > 0$ and $\beta_6 < 0$.

Parameter estimates of equation (7) for same-day and over-night Canadian spending in the United States are estimated using seemingly unrelated regression. The first column examines same-day travel spending, and the second column corresponds to over-night travel spending. These types of spending are differentiated -- rather than aggregated into total travel spending -- because same-day travel is motivated primarily by cross-border shopping¹⁶ while over-night travel is mainly associated with recreation or pleasure travel. Thus, it is unlikely that the influence of the determinants would be the same for each type of travel spending.

Beginning with same-day travel spending, coefficient estimates for expected foreign prices, domestic prices, the nominal exchange rate, income, uncertainty, and the Free Trade Agreement variable are of the expected sign and statistically significant at the 1-percent level.

¹⁶ Although cross-border shopping is not one of the categories used to classify the purpose of travel by Statistics Canada, same-day travel figures are often used to measure the extent of cross-border shopping (Di Matteo 1993).