

A Canadian tariff reduction reduces the cost of foreign goods and thus, increases imports. It should be noted, however, that the imports of many items, such as oil, are institutionally determined, which means judgment must be used when assessing the impact of tariffs.

1.2.1.2 Prices -- A change in trade prices has effects throughout TIM. Altered trade prices will immediately change the current dollar value of flows of traded goods. Different trade prices will also have an impact on real side variables such as exports.

An important distinction between TIM and other models is that a change in the trade prices will influence the overall price level since interest rates are the primary policy variable, not money supply. This result will differ from many theoretical models and a few applied models, because in these, the price level is determined solely by the money supply. In TIM, the overall price level is a weighted average of all the individual prices in the economy. Each of these is determined by factors unique to its circumstances. This means that if the tariff is reduced, the cost of purchasing a foreign good goes down and if the price of the foreign good feeds directly into the GFI or is used as an input in the production of a domestic good, then the Canadian price level will go down. This downward influence on the price level is quite important in understanding the results of this study because changes in the price level have very significant effects on real economic activity.

A detailed explanation of the workings of the price system in