

The effect of a tariff reduction on an equation such as this is to raise the effective value of XP , thus making it profitable for more producers to enter the market and to increase the Ricardian rents of the existing producers.

3. The third case occurs when Canada has some influence over the export price. This case occurs more frequently than might be expected for a country whose GNP is only about two per cent of the world total. The reason for this is that there are, in reality, tens of thousands of commodities which are traded on world markets; and it is only natural that one of the ten largest economies in the world would have a comparative advantage in some of them. Manufactured goods typically fall into this category. In a market such as this, Canada's market share is determined by its ability to offer relatively low prices in markets. Thus, the equation will take the form:

$$XK = f(b_1 \cdot act, b_2 \cdot (XP \cdot (1 - t)) / (REXN \cdot FP))$$

where XK = constant dollar exports
 act = activity variable
 XP = export price charged by exporters in Canada
 $REXN$ = exchange rate - Canadian dollars per unit of foreign currency
 FP = foreign price received by foreign producers
 b_1, b_2 = econometrically determined coefficients - b_1 is positive and b_2 is negative
 t = foreign tariff rate

With b_2 negative, a rise in the export price charged by exporters, XP , will lead to a drop in XK . Conversely, a rise in the foreign price, FP , will lead to a rise in XK . If the Canadian dollar appreciates, i.e., $REXN$ drops, this will lead

