

1. If the international market for a good is perfectly competitive, Canada can have no influence on the world price of the good. Canada's market share of such a commodity would be determined by its share of world capacity to produce the good, and by its distance to markets. The equations for export goods in these markets contain no price term, since price will have had no influence on the volume of exports throughout the sample period. In a market such as this, a lowering of the United States tariff rates will generate windfall profits to Canadian exporters if they are able to capture the indirect tax "room" vacated by the United States government, and since their volume of exports is not directly changed.

2. There can be markets in which Canada has no influence on the world price and yet, are not perfectly competitive because supply costs differ greatly among suppliers. In a market such as this, as the world price rises, Canada will supply more of the good. On the other hand, if the world price falls, Canada's least profitable producers will shut down production. Many of the metal ore export equations fall into this category. The equations are of the following form:

$$XK=f(b1*act,b2*XP/(COST))$$

where XK=constant dollar exports
act=activity variable
XP=export price received by exporters in Canada
COST=production costs of the commodity
b1,b2=econometrically determined coefficients, both
with positive signs.