

replacement investment effects are ignored. In this equation, for every unit increase in Y then I will go up by b_1 . This implies that K/Y will converge on b_1 in the long run. The third equation gives the employment demand for given Y, K levels and a point in time. Note that employment is determined last as the residual after the values of Y and K are known. With the Y/K ratio fairly constant then all the changes in productivity are forced into improvements in the Y/E ratio which is the output per worker.

In this analysis, to accommodate assumptions of increasing returns to scale, we therefore have exogenously altered the investment and employment equations so that the desired productivity result is achieved. This is accomplished by adding positive adjustment factors to the investment equations so that the Y/K ratio goes down and productivity improves. As well, negative adjustment factors are added to the employment equations to represent improvements in labour productivity.

1.2.2 Provincial Impact Method - To measure the provincial impacts, we have used the Regional-Industrial Model (RIM) of the economy. As is detailed in Appendix B, this combines a mechanism for provincially allocating the changed national production of goods with one that consistently estimates the impacts on provincial populations. Goods production is determined exogenously (from base case shares), or by tying activity to some final demand estimate. Combined, these procedures determine the allocation of the output of service sectors among the provinces, and incomes of persons. It should be noted that