effects on import prices and volumes. Such effects may be inferred from careful inspection of statistics that describe changes in patterns between those commodities that appear to be most directly affected, and others, by review of changes over time, and by comparison to changes in the United States and other countries.

Inferences derived from reviews of changing trends described statistically cannot, however, isolate the extent to which the changing patterns were caused by the FTA, or by other unrelated events. Typically, economic "models" are required for this.

Nor can models provide an unambiguous isolation of effects, even at this "early point" of any analysis where the focus is on partial evaluation of trade or price effects. Models represent the behavior of thousands of decision-makers, and necessarily portray the aggregate effects of such decisions imperfectly. The price faced at the border by a Canadian importer will depend on whether pre-FTA prices were influenced solely by perfect market conditions and the extent to which the federal government imposed a revenue cost to the good, or whether this, and quantitative restrictions imposed by the federal or provincial government, or the nature of the market has also influenced price. If the latter, then the tariff effect on price will be difficult to determine. In some instances, the nature of the market will be highly sector-specific, requiring detailed institutional knowledge of the sector.

Further, given some impact on import prices, the effect on the volume of imports will vary with price elasticity. Once again, model representation of behavior will be imperfect, and varies among researchers. For example, the long-run elasticities used by Informetrica Limited in its early 1989 studies were 0.8 for exports and 0.7 for imports. (If exogenous categories are excluded, these figures rise to 1.6 and 1.0, respectively.) In contrast, Department of Finance results reported a trade price elasticity of 4.1 for exports and 2.7 for imports. Any trade diversion effects would compound the measurement problem.

Similar difficulties exist in measuring the impacts on Canadian exports to the U.S. While reductions of U.S. government revenues will occur, it is not immediately clear whether this will provide a benefit to Canadian producers in the form of increased export volumes, or simply provide an opportunity for the Canadian exporter to increase his selling price with no change in the volume of exports. The actual effects will vary from commodity to commodity.

Finally, it needs to be noted that FTA-related impacts on the volume and price of exports and imports will also be influenced indirectly by other impacts on the economy, and will themselves have effects on other segments of the economy. In addition to the direct tariff effects outlined above, import volumes will also respond to the degree to which the output of Canadian industries is affected, and in degree as the real income and savings of Canadian households are affected. These will be affected by the commodity and tariff on which partial analysis may focus, but also by all other tariff changes, and indeed, by all other direct impacts on the economy. Both export and import volumes will also be sensitive to the degree to which the FTA affects the costs of labour and capital, and