of tax policy. The prime objective of tax policy is to raise maximum revenue with minimum distortions to resource allocation. Tariffs directly distort the international allocation of resources through their impact on trade flows. In evaluating the impact of taxation on our trade patterns the central issue is whether domestic taxes have impacts on exports and imports that are comparable to the tariff in their impact on Canada's trade flows.

Exchange rate management comprises actions by domestic monetary authorities to alter the value of the exchange rate from the value that would result from supply and demand conditions in the foreign exchange markets. The supply and demand conditions are the channels whereby the overall balance of payments position is transmitted to the exchange rate. Exchange rate management is prompted by objectives for the domestic inflation rate or for the domestic unemployment rate. Either one of these can be the prime objectives achieved over a short run horizon of up to a year through switches of domestic residents' expenditure patterns between internationally traded goods and domestically traded goods. Nonetheless, exchange rate management has its impact upon nominal valuations expressed in terms of money instead of real valuations expressed in terms of the items traded. Rational economic behaviour means that individual economc behaviour responds to real valuations. Consequently, exchange rate management influences on nominal valuations cannot permenantly change the real patterns of exports and imports that are traded. Exchange rate management can only have a significant impact on transitory changes in the permenant patterns of our trade flows.