5. Conclusion

This paper presents a simple consumer choice model designed to identify the main determinants of Canadian spending in the United States. The model focuses on a representative consumer who allocates income between spending on goods purchased in domestic markets and goods purchased abroad. The central feature of the model is that the consumer does not possess full information about foreign prices. Instead, the consumer's spending behavior is based in part on prices expected to prevail in the United States. By eliminating a full-information setting, the model identifies uncertainty as an important determinant of travel spending. In addition, domestic price, expected foreign price, nominal exchange rates, and income also help explain Canadian travel spending in the United States.

Empirical estimates confirm the main predictions of the model over the period 1980-1994. Higher prices in Canada are associated with greater Canadian travel expenditures in the United States. In contrast, an increase in anticipated foreign prices and the cost of foreign currency discourage travel expenditures by Canadians. In addition, foreign price uncertainty, income, and the Free Trade Agreement influence travel spending. The contribution of each identified determinant, however, is not equivalent. In particular, Canadian spending in the United States appears most responsive to expected foreign price and the exchange rate. Domestic price, while a significant determinant, has a more modest impact on Canadian travel spending.

With the move to fewer international trade restrictions, Canadian shoppers are likely to become more sensitive to relative prices. The importance of travel spending is evident by the