

Ex//ECO/UG/CORE/5.1/2025

BACHELOR OF ARTS EXAMINATION, 2025

(3rd Year, 1st Semester)

ECONOMICS (HONOURS)

Course : ECO/UG/CORE/5.1

(International Economics)

Time : Two Hours

Full Marks : 30

Answer **Question No.1** and *any two* from the rest

1. Argue whether the following statements (*any one*) are true, false or uncertain : 6
 - (a) There cannot be any gains from trade for a country when its labour and capital used to produce two goods are sectorally immobile.
 - (b) Under a non-homothetic taste, trade pattern between a capital-rich country and a labour-rich country may not be H-O type.
 - (c) Since imports are leakages from the circular flow of national income, an exogenous increase in imports must lower the national income of a country.

2. (a) When can a country having absolute disadvantages in both lines of production compared to another country still have a comparative advantage in one of the two goods? Explain your answer.

ECO-1122

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(2)

- (b) If a home country and a foreign country produce two goods under constant opportunity costs using only domestic labour, and exchange the two goods according to their comparative advantages, what can you say about the following?
- (i) Post-trade volumes of productions
 - (ii) Post-trade levels of aggregate real incomes and national welfare 3+5+4=12
3. (a) What is an optimum tariff? What is the logic/intuition behind tariffs raising welfare of the large country only up to this optimum rate? (Assume that tariff revenues are redistributed).
- (b) Algebraically derive the rate of optimum tariff, and show that it is strictly positive for a large country but zero for a small country.
- (c) Intuitively explain why optimum tariff is zero for a small country. (1+4)+(4+2)+1=12
4. (a) Define a binding Voluntary Export Restraint (VER).
- (b) Is the VER of the amount 50 binding when $M_d = 200 - 2p^W$, $X^* = 20 + p^W$?
- (c) In this context, show that —
- (i) the VER worsens the TOT for the importing country;
 - (ii) an equal-import quota imposed by the importing country improves the TOT for the importing country;

(3)

- (iii) the domestic relative price of imports remain the same in the importing country under both VER and equal-import quota.
- (d) Does the relative price export change in the exporting country when its VER is replaced by an equal-import quota?
- (e) Find out the scarcity rent under VER. Who gets this rent under universal perfect competition? 2+2+(1+1+2)+1+3=12
5. (a) What is an over-valued pegged exchange rate regime? What is its rationale? What must the Central Bank of the country do to defend such an exchange rate? Explain and illustrate your answer in terms of a suitable diagram.
- (b) What effect an expansionary monetary policy will have under this regime with no capital control? Will your answer change if we have a clean float exchange rate regime? (1+1+4)+(4+2)=12

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