

BACHELOR OF ARTS EXAMINATION, 2025**3rd Year, 2nd Semester****DEPARTMENT OF ECONOMICS****Subject Code : Eco/B/DSE/6.1/2****ISSUES IN OPEN ECONOMY****Time : Two Hours****Full Marks : 30****Answer question number 1 and any two from rest :**

1. Consider the following import demand function for India and France:

$$M_i = 100/e, M_f = 50 + 3e$$

- a. Write down the trade balance condition for India expressed in its domestic currency.
- b. Find out the value of the rupee-euro exchange rate for which trade is balanced.
- c. If initially the exchange rate is one, what is the value of trade deficit or surplus for India, whichever the case may be ?
- d. Suppose after devaluation, the exchange rate becomes 50 Rs./euro what will be the trade balance for India? 1+3+3+3 = 10

2. Use the Mundell - Fleming model to predict what would happen to aggregate income and the exchange rate under both floating and fixed exchange rate regime with high capital mobility in response to each of the following shocks:

- a. A fall in consumer confidence about the future induces consumers to spend less and save more.
- b. The introduction of ATM reduces the demand for cash holding. 5+5 = 10

3. Discuss the short run and long run effects of an increase in domestic money supply on the domestic interest rate and on the equilibrium exchange rate with the help of a diagram (following asset market approach). 5+5 = 10

4. Write down the short note on the following topics: 5+5 = 10
- a. Immiserizing growth
 - b. Latin American financial crisis in 1980s
