

MASTER OF ARTS EXAMINATION, 2024

(2nd Year, 3rd Semester, Supplementary)

ECONOMICS

[INTERNATIONAL ECONOMICS I (PURE THEORY OF TRADE)]

Time : Two hours

Full Marks : 30

Answer any **two** questions

1. (a) How can you measure content of factor-i in trade?
(b) How does the factor content approach define labour abundance of a country when it has many factors of production?
(c) How can the factor content approach be used to extend the HO theorem to a many good many factor world? 3 + 3 + 9 = 15

2. (a) Consider a small country producing three goods: two export goods, X and Z, and an import-competing good Y. Z is produced by skilled labour and capital, whereas X and Y are produced by unskilled labour and capital. All input coefficients are fixed. The import good Y is subject to an ad valorem tariff. In this set up, how will trade liberalization affect wage inequality?
(b) Suppose the export Good Z is a quality differentiated good, with its quality $Q \in [0,1]$ is observable to all. The world price of good Z increases with its quality Q. The per unit capital requirement in Z sector now increases at an increasing rate with its quality. How does the tariff reduction now affect the quality of the export good Z? Should the change in export quality affect the wage inequality further? How would have the export-quality change if instead of tariff reduction, we had an exogenous growth in domestic capital stock? 5 + 5 + 3 + 2 = 15

3. Distinguish between the love of variety approach and the characteristic approach. How does love of variety approach explain intra-industry trade when consumers are identical and production technology exhibits IRS? What are the two sources of gains from such a trade? 5 + 6 + 4 = 15

4. (a) In what different ways does international trade affect growth rate of a country?
(b) Why is it that the welfare implications of growth in an open economy may be quite different from that in a closed economy? Is there any possibility of a country losing through growth? Explain. 7+8 = 15

5. Write short notes on any two of the following: 7.5 + 7.5 = 15
 - (a) Natural enemy and natural friend of a factor of production
 - (b) Trade and wage inequality in a developing economy
 - (c) Goods Price Equalization Theorem