

MASTER OF ARTS EXAMINATION, 2025**ECONOMICS****2nd Year, 2nd Semester****Subject Code : Eco/A/DSE/10.6****INTERNATIONAL ECONOMICS AII****(MONEY, BOP, & EXCHANGE RATE) (PREREQUISITE INTERNATIONAL ECONOMICS AI)****Time : Two Hours****Full Marks : 30****Answer any two questions :**

1. Consider an open economy model with real wage resistance. The firms in the open economy set their prices based on mark-up pricing. The overall price level, as considered by the labour, is based on domestic price set by the firm and the price of importable.
 - (a) What do you understand by “required” terms of trade determined in the model?
 - (b) Does real wage resistance allow the economy to achieve both internal and external balance simultaneously? Will devaluation be helpful in achieving the internal and external balance? Give arguments for your answer.
 - (c) With the economy in equilibrium at less than full employment level and external deficit, how will the economy dynamically adjust towards equilibrium using fiscal policy and changes in terms of trade? [4+5+6]
2.
 - (a) What is absolute Purchasing Power Parity (PPP) principle? Is it different from relative PPP? What are the basic propositions and implications of monetary approach to Balance of Payments?
 - (b) Show using a simple model that the nature of disequilibria in BoP following changes in money stock is self-correcting under non-sterilization assumption?
 - (c) Does devaluation lead to an improvement in BoP in the monetary approach to BoP? Justify your answer under the assumptions of non-sterilization.
 - (d) In a two-country monetary model, where prices are endogenously determined, show the adjustment in BoP following the changes in money supply? [3+3+2+7]

3. (a) What is understood by perfect substitutability of assets in the context of an open economy? Explain the condition which holds in the context of perfect substitutability of assets in an open economy.
- (b) In a small open economy, with perfect substitutability between assets, how does wealth holding determine exchange rate?
- (c) How is exchange rate determination in case of portfolio holding based on the interaction between current account and capital account? [4+5+6]
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