

Ex/PG/ECO/307/2025

MASTER OF ARTS EXAMINATION, 2025

(2nd Year, 1st Semester)

ECONOMICS

Course : PG/ECO/307

International Economics (Pure Theory of Trade)

Time : Two Hours

Full Marks : 30

Answer *any three* questions

1. Do workers gain after tariff reductions in a small open economy which produces two goods with sector-specific capital but homogeneous labour? Explain your answer with necessary algebraic details. 10

2. (a) Consider a small open economy producing an export good X and a non-traded good N and consuming an imported good Y and the non-traded good N. The world prices of traded goods are exogenously given. Show that trade is balanced if the market for the non-traded good is domestically cleared.

ECO-1130

[Turn Over]

(2)

(b) Suppose, the economy produces both X and Y and they are lumped together into a composite traded good T. Both T and N are produced by domestic capital K hired at the flexible rate of return r and labour hired at the fixed money wage \bar{w} . The good T also uses an imported input in its production, which is subject to an ad-valorem tariff. Tastes and homothetic. If initially there was unemployment of labour, how does such unemployment change when tariff on the imported input is lowered? Explain your answer. 3+7=10

3. (a) If quality of a good is not observable a priori, how should a buyer decide about his/her marginal willingness to pay for the good produced domestically? Which information should a buyer use to ascertain quality of an imported good?

(b) If there is no objective basis of distinguishing goods produced domestically and abroad, what will be the pattern of trade between a Home and a Foreign country? Should the countries gain from such trade? Assume fixed supplies of the good in these countries, heterogeneous set of consumers and each consumer buying only one unit of the good (if at all). 1+2+2+5=10

4. State the FPE and GPE theorems. What implications do these theorems have for commodity trade and capital mobility for a country allowing these in a sequential manner? Prove the GPE theorem, stating clearly the crucial conditions that you need for it to hold. 3+2+5=10

(3)

5. What implications does a growth in labour force have on the composition of output and aggregate real income (or welfare) of a labour-abundant small open economy? Does your answer change if this economy is large and the pattern of trade is HO? 5+5=10

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