Ref No. Ex/PG/ECO 48/2019

MASTER OF ARTS EXAMINATION, 2019
(2ND YEAR, 4TH SEMESTER)

ECONOMICS
PAPER: INTERNATIONAL ECONOMICS III

Time: Two Hours Full Marks: 30

Answer two questions

1. (a) In the foreign exchange market, with normal demand for and supply of exports and imports in deriving supply of and demand for foreign exchange, what condition that ensures stability in equilibrium?
   (b) How will the stability condition change if the supply of exports and imports are respectively assumed to be infinitely elastic?
   (c) Under what conditions the supply of foreign exchange curve is backward bending? Will stability of the equilibrium change in such a situation?
   (d) If the monetary authority intervenes in such a foreign exchange market and fixes the exchange rate above the equilibrium exchange rate, will the foreign exchange market come to an equilibrium? Justify. 8+2+3+2=15

2. a) In an open economy, under what condition(s) will devaluation lead to an increase in output?
   a) In the same open economy, can full employment as well as competitiveness be achieved simultaneously in the presence of real wage rigidity? Justify.
   b) Can devaluation be a panacea in such a situation? Give reasons for your answer.
   c) If macroeconomic policies such as fiscal policies are introduced, what kind of dynamic adjustments in real wages take place to reach the equilibrium?
   4+4+3+4=15

3. Consider an open economy short-run equilibrium with goods, money and external markets with fixed exchange rate.
   a) How will the economy attain macroeconomic equilibria under zero, imperfect and perfect capital mobility? If the equilibria so attained are underemployment equilibrium, will monetary policy be effective in attaining internal balance.
   b) In (a), which condition, according to you, places stringent boundaries on the effectiveness of monetary policy?
   c) With unanticipated monetary shocks, how will economy dynamically adjustment toward full equilibrium under flexible exchange rate and sluggish output reponse?

[Turn over

d) If the economy is in a liquidity trap situation, can monetary policy help in improving the situation of an underemployment equilibrium? Justify.

5+2+5+3=15

4. (a) How does the portfolio balance approach to exchange rate determination differ from the monetary model? Illustrate a simple model of exchange rate determination using the portfolio balance theory.

   (b) If the home market increases money supply through open market operations, is it possible to arrive at a new equilibrium exchange rate using portfolio balance approach? Justify.

   (c) How will the equilibrium change with decline in real income growth in the home economy following an economic crisis?

   (d) Using a model where long run equilibrium exchange rate prevails through the interaction of the current and the capital accounts, is it possible to show that an increase in exchange rate in the short run will lead to a complete adjustment in the long run? Justify.

4+3+3+5=15