MASTER OF ARTS EXAMINATION, 2019

(2nd Year, 4th Semester)

ECONOMICS

INTERNATIONAL ECONOMICS II

Trade Policies, Standards and Regulations

Time: Two hours | Full Marks: 30

Answer any ***three*** questions

1. Show that a unilateral optimum tariff is globally Pareto sub-optimal and hence argue that there would be no scope for compensation or side payments by the tariff imposing country to its trading partner to avoid retaliation. Characterize the post retaliation equilibrium in terms of (a) volume of trade, (b) welfare of trading nations. 3 + 7 = 10

2. Consider a small open economy producing and exporting mango and importing (but not producing) sugar. The production function for mango is X = $5L_X$, where L_X is the labour used in production of mango (which is less than or equal to the total number of workers, L). If there is a binding quota on imports of sugar, and import licenses are distributed among license seekers proportionally, what would be the impact of such import quota on aggregate production of mangoes and welfare of the country? 10

3. Distinguish between trade creation and trade diversion effects of an FTA. Before an FTA agreement with Sri Lanka, India were importing garments from Bangladesh where the supply price of garments is 60 per unit, compared to the supply price of 70 per unit in Sri Lanka. India had imposed a uniform tariff of 40 percent on imports of garments regardless of from where garments are imported. Does the FTA agreement with Sri Lanka divert imports of garments by India? Is trade diversion necessarily bad as claimed by Jacob Viner? How did Lipsey interpret Viner's argument that trade diversion is bad? Explain your answer.

2 + 2 + 3 + 3 = 10

[Turn over

4. Do you think that it is lack of altruism on part of the parents that they send their children to work instead of to school? Do you think that the incidence of child labour can be reduced through legislation and fines imposed on employing firms, and through trade sanctions? Explain your answer in terms of a suitable analytical structure. 3 + 7 = 10

5. Consider two countries producing two goods that differ in pollution intensity. Standard assumptions of 2x2x2 general equilibrium model hold. In both countries competitive firms are regulated and so there is no over production or underproduction relative to the social optimum. If trade opens up between these two countries, how should national pollution levels change? Assume that pollution levels generated by the two goods are local and there is no spillover or transmission to the other country. Is imposition of tariff by the country importing the dirtier good justified?

6. Comment briefly on the following: 5 + 5 = 10

   (a) Export Subsidy and Market Sharing Rivalry

   (b) Parallel imports and Innovation