

MASTERS OF ARTS EXAMINATION 2018
(2nd Year, 4th Semester)
ECONOMICS
DEVELOPMENT ECONOMICS- II

Time: 2 hours

Full Marks: 30

The figures in the margin indicate full marks

Answer any **three** questions.

1. Dollar and Kraay in a set of articles tried to find out the impact of trade openness on growth and inequality of nations. They have got two sets of results which are partially reproduced below for panel data regressions.

Table 1: Trade and Growth Regressions- estimated coefficients values

<u>Explanatory Variables</u>	<u>OLS</u>	<u>IV</u>
Initial Income	0.419***	0.783***
Trade Volume Share	0.252***	0.475***

Table 2: Trade and Income of the Poor Regressions- estimated coefficients values

<u>Explanatory Variables</u>	<u>System</u>
log of per capita GDP	1.094***
Trade Volume Share	-0.039
P-value for $H_0 (\alpha_1=1)$	0.386

Note: In both tables, '***' denoted significant at 1 per cent level

Explain the methodology used in the estimation as reported in tables 1 and 2. Explain the possible reason(s) why trade volume share matters for Table 1 regression while in Table 2 regression, it does not have any significance. Further interpret the $H_0 (\alpha_1=1)$ result.

(6+3+1)

2. Define immiserising growth. Prove that in case the price elasticity of foreign import demand is greater than 1, then the production of importables in the home country must decline, consequent upon growth, for immiserisation to occur. (2+8)
3. In a North South model with Lewis type South and Solow type North, derive the steady state values of terms of trade (θ) and labour ratio (λ). Given that in the short run θ and λ are inversely related (due to Marshall-Lerner condition), show that a higher propensity to save in the North leads to an initial divergence of short run θ from its steady state value,

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which finally returns to the old steady state value, but the steady state value of λ might change in either direction. (4+6)

4. It is often argued that the presence of Multinational Enterprises may lead to higher welfare in a country. Using love of variety type preference function for consumers and assuming particular type of multinational enterprises, show that this is true if the consumer solves her choice problem in two stages. (10)
5. Construct a 2-country 2-goods trade model having a fragmented production structure for manufactured products. One country is a low wage developing country and the other one is a more technologically advanced developed country. The fragmentation is in terms of component production which is produced with the help of services. Labour is the only primary factor of production. In this model, first derive the autarky prices. Then using a continuum of components production structure, show that a low wage developing country may have substantial gains if trade is allowed in goods, components and services, provided their production technology for both components and services does not differ significantly from a developed partner country. (3+7)