

MASTER OF ARTS EXAMINATION, 2018
 (2nd Year, 3rd Semester)
ECONOMICS

INTERNATIONAL ECONOMICS II

Time: Two hours

Full Marks: 30

Answer any *three* questions

1. Explain the following statement: Tariff protection reduces exports under CRS technology and perfect competition, but promotes exports under IRS technology and Cournot competition. 10

2. Suppose the government of a country decides about a particular tariff rate solely on the basis of lobbying by different economic agents for and against a higher or lower tariff. If in a 2x2 model only the single firm producing the import competing good lobbies for protection whereas the competitive producers of the export good remain passive, what do you think would be the tariff rate implemented by the government? What would be the welfare implication of such a lobby? If instead, only the capitalists lobby, should they all lobby for protection when capital is sector specific? What would be the tariff rate implemented by the government in such a case? 1 + 4 + 1 + 4 = 10

3. Distinguish between regionalism and multilateralism in international trade policy. How can you use political economy arguments to show that regionalism may foster multilateralism? 10

4. (a) What are the main arguments for patent protection? How valid do you think such arguments are?
 (b) Why do we see wide cross-country variations in implementation of TRIPS even though it is binding for all WTO-member countries? Give some examples of such variations.
 (c) Is international exhaustion of patent rights granted by rich countries good for poor countries? Is it always good for the rich country as well? (2+1) + (2+1) + (2+2) = 10

5. Consider two countries – a North and a South – producing a quality differentiated good, which degrades the environment while it is being produced. The environmental degradation is, however, lower the cleaner is the variety of the good. The consumers

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everywhere are identical, prefer a cleaner variety over a dirtier variety and buy one unit of the good each. Producers everywhere are perfectly competitive. Marginal cost, identical in both the countries, does not vary with the output level but increases at an increasing rate with the successively cleaner varieties. The Northern government imposes a pollution-content production tax on its producers whereas the Southern government leaves its own firms unregulated. In such a set up, show that,

- (a) Southern firms produce a dirtier variety than the Northern firms;
- (b) when trade opens up, all consumers in the North buy the imported dirtier variety as a consequence of ecological dumping by Southern producers.

What are the alternative policies that the Northern government can adopt to prevent such ecological dumping and ensure that the imports from the South are of same variety as produced by the Northern firms before trade? Are those policies welfare improving for the North compared to unregulated and free imports of dirtier varieties from the South? Explain.

3 + 2 + 2 + 3 = 10

6. Briefly comment on the following: 5 + 5 = 10
- a) Child labour, comparative advantage and trade sanction
 - b) Lipsey-Bhagwati controversy on trade diversion being bad