

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

INTERNATIONAL ECONOMICS I

Time: Two hours

Full Marks: 30

Answer any *three* questions

10×3=30

1. Consider a small open economy producing an export good and a non-traded good using labour and capital. The export good also requires an imported input, which is subject to an ad valorem tariff. Money wage is fixed at level higher than the wage corresponding to full employment of labour. In such a set up, how does a reduction in the rate of tariff on imported input affect aggregate employment when the demand for the non-traded good is, (i) perfectly income inelastic, (ii) perfectly own-price inelastic? Illustrate the effects in each of these cases in suitable diagrams. 6 + 4 = 10
2. Define factor content of trade. How would you use this concept to generalize the Heckscher-Ohlin theorem to many-factor, many-commodity and many-country case? 2 + 8 = 10
3. Do you think conversion of import quotas into equivalent tariffs in a standard 2x2 HOS model can explain the observed phenomenon of rise in wage inequality in both the trading nations? Explain your answer intuitively, without any algebraic derivation. 10
4. In terms of a suitable analytical structure, argue that a capital abundant small dependent economy will export higher quality goods. Does your answer depend on the factor intensity ranking of goods? 7 + 3 = 10
5. Measure the gains from trade using compensating and equivalent variations. Using the latter show that if a country trades according to its comparative advantage, then its net export vector evaluated at the autarchic prices is negative. 4 + 4 + 2 = 10
6. (a) Explain briefly how the classical political economists argued that international trade will promote growth.
 (b) Does the income redistribution effect of trade have any implication for a country's growth? Explain.
 (c) What implications does export-led growth have on within-country income distribution in the present era? 5 + 3 + 2 = 10