BACHELOR OF ARTS EXAMINATION, 2018 (OLD)

(2nd Year, 4th Semester)

Economics (Honours)

International Trade I

Time: Two hours | Full Marks: 30

Answer any *three* questions

1. Argue whether the following statements are true, false or uncertain: $5 + 5 = 10$
   (a) If Nigeria has inferior production technologies in all lines of production compared to Canada, and both countries produce the goods under constant costs and perfectly competitive conditions, then it cannot export any good to Canada.
   (b) The gains from specialization according to comparative advantage depend on the degree of homogeneity and mobility of factors of production.

2. (a) Define offer curve of a country. What does its convex shape mean? Explain.
   (b) Can the offer curve of a country be backward-bending? If so, what does it imply?
   (c) If offer curves of both the countries are backward bending at the international equilibrium, will such equilibrium be Walrasian stable? $(1+2) + 3 + 4 = 10$

3. How did Ricardo argue that trade between two countries is caused by their technology differences? Why is it that the two countries completely specialize in their respective comparative advantage goods? Does the size of the countries matter in this context? $5 + 3 + 2 = 10$

4. India and Brazil both produce coffee (C) and pharmaceuticals (P) using sectorally mobile and homogeneous labour and capital under CRS technology and perfectly competitive conditions. Tastes are homothetic and identical across countries. Suppose India is a relatively capital scarce country.
   (a) Which good India will export to and import from Brazil? Explain your answer.
   (b) Will the workers in India and Brazil be better off from such a trade?
   (c) Does your answer in (b) depend on whether coffee is relatively more labour intensive or capital intensive? Explain. $5 + 3 + 2 = 10$

[Turn over

5. Why is it that an import tariff lowers the welfare of a small country but may raise the welfare of a large country? What tariff rate will maximize the welfare of a large country when the tariff revenue is redistributed to the consumers? 5 + 5 + = 10

6. (a) What is the conceptual difference between an import tariff and an import quota?
(b) Define and illustrate an import quota which is binding. Why does a scarcity rent arise under a binding import quota? To whom does such scarcity rent accrue? Explain. 2 + 3 + 2 + 3 = 10