BACHELOR OF ARTS EXAMINATION, 2018

(2nd Year, 4th Semester)

Economics (Honours)

International Trade I

Time: Two hours | Full Marks: 30

Answer Question 1 and any *two* questions from the rest

1. Argue whether the following statements (any two of your choice) 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.
   (c) An export subsidy imposes dead-weight losses on a small open economy..

2. (a) Using the relationship between relative price of exports and offer of exports by a country, explain the factor(s) on which the convexity of the country's offer curve (with respect to its export axis) depends.
   (b) Using the relationship between import demand and export offer of a country along its offer curve, explain,
      (i) what does convexity of the offer curve imply,
      (ii) what does a backward-bending offer curve imply. 5 + 2 + 3 = 10

3. 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

4. In a standard two-country competitive general equilibrium framework, how dos an export tax imposed by a large country affect its Terms of Trade (TOT)? What implications does an (unilateral) export tax have on the welfare of the tax-imposing country and welfare of its trading partner? $3 + 5 + 2 = 10$

5. (a) Define a binding import quota.
   (b) Show that equal-import tariff and quota are price equivalent for a small country. Does this mean that equal-import tariff and quota would be welfare-equivalent as well? Explain.
   (c) Does the price-equivalence result hold for a large country? $2 + 4 + 2 + 2 = 10$