

M.A. Second Year 4th Semester Examination 2022

Subject: Economics

Paper: International Economics II

Time: Two Hours

Full Marks: 30

Answer any two questions

1. a) In an open economy framework with prices being exogenous and set to unity, in the presence of repercussion effects derive the condition under which the equilibrium is dynamically stable.
b) With the home and the foreign countries being interdependent for growth stimulus, there is a simultaneous increase in expenditure and a shift in the pattern of expenditure in the home country towards more of home goods. Will the world equilibrium change? Will the home country income change as a result and to what extent?
c) If at the initial equilibrium as in 1(b), the home savings propensity changes relative to the foreign propensity to save in the ratio of 3:4, how does the equilibrium get affected?
d) If instead of a shift in expenditure, the home country imposes tariffs on its imports. Will equilibrium income of the home country change unequivocally? Justify. 4+(1+4)+2+4
2. a) Explain Hume's price-specie flow mechanism.
b) How Mundell's income reserve-flow mechanism is different from that of Hume?
c) Does an increase in money supply temporarily worsen the BOP under non-sterilization assumption?
d) Do the results in 2(c) change with the central bank introducing sterilization?
e) Does devaluation lead to an improvement in BoP in the monetary approach to BoP? Justify your answer both under the assumptions of sterilization and non-sterilization.
3+2+3+2+5
3. Assume that a household lives for two period and maximizes its intertemporal utility $U = \log(C_1) + \beta \log(C_2)$ subject to the intertemporal budget constraint. Here symbols have their usual meaning.
a) Derive the intertemporal budget constraint of the household and find the optimal consumption in each period.
b) What do you mean by consumption smoothing in this context? Derive the condition that ensures the phenomenon.
c) Derive the intertemporal PPF for this economy and use it to formulate the general equilibrium structure of this model? Use an appropriate diagram to explain the concept of trade triangle in this context.
d) How do you explain the determination of the world interest rate using the intertemporal approach? Is economic growth always immiserizing? Justify with proper argument.
(3+2+4+6)