

MASTER OF ARTS EXAMINATION, 2022
(2nd Year, 4th Semester)
ECONOMICS

Special Topics II in International Economics
(Uncoordinated and Coordinated Trade Policies and Regulations)

Time: Two hours

Full Marks: 30

Answer any *two* questions

1. (a) Suppose the government of a country chooses a tariff rate solely on the basis of lobbying by different economic agents. 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?
(b) Suppose, instead of the import-competing firms lobbying for tariff protection, the capitalists lobby for or against tariff protection. 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? 2 + 5 + 3 + 5 = 15

2. (a) What are the different motives or reasons for countries to sign RTAs?
(b) Distinguish between trade creation and trade diversion effects of an FTA. Using a three-country example state the basic condition for trade diversion. By your stated condition, suppose after signing an FTA agreement with Sri Lanka, India's imports of garments are diverted from Bangladesh to Sri Lanka. Does this hurt India? What was the postulate of Jacob Viner in this regard? Was it correct? 5 + 2 + 2 + 6 = 15

3. (a) What is ecological dumping?
Discuss this in the context of trade between a North and a South, both producing an environmental-quality differentiated good, which degrades the environment while it is being produced. The consumers everywhere are identical, prefer a cleaner variety over a dirtier variety and buy one unit of the good each. Producers everywhere are perfectly competitive.

[Turn over

- b) 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.
- (c) If a country is observed to export a dirty good, does it necessarily suggest that the environmental standards in that country are lower than the international standards, or that it practices ecological dumping?

1 + 6 + 6 + 2 = 15