Contagion of Crisis, International Trade and Welfare

Thesis submitted in partial fulfillment of the requirements for the award of the Degree of Doctor of Philosophy in Arts at Jadavpur University, Kolkata

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2022

Abstract

In economics, the term ’*contagion*’ was first coined since July 1997, during the period of Asian financial markets crisis. It is the spread of an economic crisis from one market or region to another country and can occur at both domestic and international level. An economic crisis is a situation which will occur in a business/financial system when an abrupt change takes place on the financial value of items such as assets, commodities or services. On the other hand, a contagion is the spread of an economic crisis from one market or region to another and can occur at both domestic and international level. Again the international financial integration is the first step to diversify risk but also may increase the transmission of crises across countries. This integration dramatically increases the degree of ’contagion’ across countries. So the financial market of a country appears to be vulnerable to contagion during the crisis period. This thesis uses the standard trade linkages in exploring if contagion of financial crises can be estimated as outcomes of trade and financial flows across countries of the north and south.

Gravity models are the computational tool in international trade. This gravity model evolved based on Newton’s law of gravitation in classical mechanics of physics. In an international trade network of economics, bilateral trade strength is computed based on the economic masses of the partner countries in the network and the distance between them. One of the objectives of this thesis is to describe the concept of free trade. Another objective is to analyze the trade relations of India with its top trade partners, focusing on the last few years. Additionally, it has been used to estimate the Gravity Model for India’s trade flows by deriving quantitative conclusions on the effect of the selected explanatory variables and the trade agreements.

A new model has been introduced for the analysis of international trade called Radiation theory in physics. It has also been proved that this theory is related to gravity model of international trade where we have considered that economic masses such as GDP of the countries are statistically distributed as (1) uniformly distributed, (2) exponentially distributed, and (3) power-law distributed.