BACHELOR OF ARTS EXAMINATION, 2017

(2nd Year, 4th Semester)

Economics (Honours)

International Trade I

Time: Two hours | Full Marks: 30

Answer Q. No. 1 and any *two* from the rest

1. Argue whether the following statements (any two of your choice) are true, false or uncertain:

(a) In a 2x2x2 framework, if the home country has a taste bias and a supply bias in the same good, then it may export this good to the foreign country.

(b) Under factor intensity reversal, the two goods cannot be ranked unambiguously.

(c) Metzler's paradox and Lerner's case are mutually exclusive for a tariff-imposing country. 5 + 5 = 10

2. (a) Define a production possibility frontier (PPF) and a production set. Why is it that a PPF usually slopes downward? Explain.

(b) Consider the following PPF in a home country:

$$1000 = \begin{cases} x_1 \ \forall\, x_2 \leq 1000 \\ x_2 \ \forall\, x_1 \leq 1000 \\ 0 \ \ elsewhere \end{cases}$$

Draw the production set. When can such a PFF occur? Explain. If the community indifference curves are strictly convex and downward sloping, and the home country has a comparative advantage in good 1, will it gain from trade with the rest of the world? Illustrate and explain your answer. (2+2) + (1+2+3) = 10

3. In a 2x2x2 framework, define relative factor abundance of countries under physical and price definitions. What is the basic difference between the two definitions? Show that under physical definition a relatively labour-rich home country will have a supply bias in the relatively labour-intensive good 1. Would you then conclude that the home country will export good 1? Explain. 2+2+4+2 = 10

4. (a) Define a voluntary export restraint (VER). Why VER is voluntary for a large exporting country? If the importing country replaces its own import-quota by negotiating with the exporting country an equal-import VER, does it gain? Explain.
(b) Show that such replacement of import-quota by equal-import VER shifts the scarcity rent from the importing to the exporting country. To whom in the exporting country does this scarcity rent accrue? (1+2+2) + (3+2) = 10

5. Show that international trade breaks up market power of a *domestic monopoly*. Under increasing marginal cost, will the good that the domestic monopoly produces be imported or exported? Is your answer consistent with the notion of comparative (or absolute) advantage? Why is it that the domestic price of the good falls after trade regardless of whether it is imported or exported? Does the country gain in the case when the good is exported? Explain your answer by identifying changes in consumers' surplus and profit of the domestic monopoly. 2+2+2+2+2 = 10

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