MASTER OF ARTS EXAMINATION, 2017
(2ND YEAR, 4TH SEMESTER)

ECONOMICS
PAPER: INTERNATIONAL ECONOMICS II

Time: Two Hours | Full Marks: 30

Answer any two questions

1. a) Consider absorption approach to balance of payments determination. What are the direct and indirect routes by which devaluation impacts on the equilibrium balance of payments situation?
   b) How will a country attain intertemporally attain balance of payments equilibrium?
   c) The intertemporal approach to balance of payments equilibrium is often said to be an extension of the absorption approach. Justify. 5+7+3

2. Consider a small open economy producing non-traded public services along with exportables using imported intermediate inputs like oil apart from labour. The exportable is assumed to be labour intensive, while the non-traded service is capital intensive. In both industries, perfect competition prevails and production is subject to CRS with fixed input coefficients.
   a) Construct the open economy model to solve for equilibrium employment in terms of exogenous real wage.
   b) Will there be an unambiguous increase in employment with an increase in real wage? Justify.
   c) If there is a hike global oil price, what are the employment effects in the small open economy? 4+6+5

3. a) How does the portfolio balance approach to exchange rate determination differ from the monetary model? Illustrate a simple model of exchange rate determination using the portfolio balance theory.
   b) If the home market increases money supply through open market operations, is it possible to arrive at a new equilibrium exchange rate using portfolio balance approach? Justify.
   c) How will the equilibrium change with decline in real income growth in the home economy following an economic crisis?
   d) Using Kouri (1983) model where long run equilibrium exchange rate prevails through the interaction of the current and the capital accounts, is it possible to show that an increase in exchange rate in the short run will lead to a complete adjustment in the long run? Justify. 4+3+3+5

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4. a) How does an open economy with imperfect capital mobility in situations of demand contraction adjust to temporary changes in monetary policy under floating exchange rate?

   b) The government introduces permanent changes in monetary policy along with fixing the exchange rate under situations of imperfect capital mobility. What will be the impact on the economy?

   c) Will the results change if changes in fiscal policy and perfect capital mobility are brought about?

   d) With imperfect capital mobility, how can economy attain internal and external balance under situations of BoP deficit and unemployment? What are the shortcomings of such policies? 3+2+5+5