MASTER OF ARTS EXAMINATION, 2017
(2nd Year, 3rd Semester)
ECONOMICS

INTERNATIONAL ECONOMICS I

Time: Two hours   Full Marks: 30

Answer any *three* questions

1. "Predictions of the Heckscher-Ohlin (HO) and Stolper-Samuelson (SS) theorems are at odds with empirical observations regarding wage inequality across the globe since 1980s." Explain this statement, clearly stating predictions of the HO and the SS theorems, and empirical observations. Does the two-country generalized HOS model offer a plausible explanation for widening wage gap in both the countries? Explain. $2 + 3 + 5 = 10$

2. (a) When buyers cannot judge quality of products a priori and are willing to pay for the goods according to the average industry quality that they perceive, should two-way trade take place between two countries in both the cases where country-origin of products are not distinguishable and where these are distinguishable? Explain your answer **intuitively** *without* any algebraic specification and derivation.
   (b) In the distinguishable product case, if the gross utility that an α-type consumer derives from consuming a product with average quality $\bar{q}$ is $\alpha\bar{q}$, then how does she decide purchasing a home product or a foreign product?
   (c) Now assume that consumers in each country differ with respect to their marginal willingness to pay for quality and are uniformly distributed over an interval. In case of indistinguishable products, should the country with higher average quality gain from imports? Explain your answer and clearly identify different components of gains and/or losses. $4 + 2 + 4 = 10$

3. State the Factor Price Equalization (FPE) and Goods Price Equalization (GPE) theorems. Discuss the implications of and intuition behind these results. In a 2x2x2 general equilibrium framework, prove the GPE theorem clearly stating the two most important conditions underlying this theorem. $2 + 3 + 4 + 1 = 10$

[Turn over

4. Consider a North where a firm first innovates a new product through R&D using knowledge capital and labour, and then produces output of the innovated product using only labour under monopolistic condition. Entry in the R&D sector is free. The innovated products produced in the North are exported to a South where IPR regime is loosely implemented so that producers there can imitate products imported from the North. In such a context, how does trade change the product rate of growth in the North? Should strict implementation of IPR regime in the South augment the rate of innovation in the North? Explain. $6 + 4 = 10$

5. (a) What do you mean by DUP-lobbying activity? What are the implications of such activities?

   (b) How does a monopoly-seeking DUP-lobbying activity lower the welfare of a country? Identify in this context the welfare effects of unsuccessful and successful lobbying.

   (c) In the context of a competition between pro- and anti-protection lobbying by different groups of capitalists, how is the rate of tariff protection determined by their equilibrium levels of lobbying efforts? Does this analysis give you a complete picture of political economy of trade policy choice? $2 + 3 + 4 + 1 = 10$

6. (a) Distinguish very briefly among different stages of regional trade cooperation as characterized by Viner (1950).

   (b) Distinguish between trade creation and trade diversion effects of forming a customs union by two countries. In a standard general equilibrium framework, show that the countries gain by the trade creation effect.

   (c) Viner (1950) himself concluded that trade diversion is bad. How did Lipsey (1960) interpret and demonstrate Viner's conclusion? $2 + (1 + 3) + 4 = 10$