Bachelor of Arts Examination 2023 (Supplementary)
(Third Year, Fifth Semester)
Economics (Honours)
International Economics I

Time: Two Hours | Full marks: 30

Answer any TWO questions

1. (a) Mongolia produces defence equipments (D) and woollen garments (G) using sectorally mobile labour and capital under constant returns to scale technologies. All markets are perfectly competitive. If at the initial equilibrium, both factors are fully employed, how will output levels of D and G change when there is a ceteris paribus rise in capital stock? Explain your answer, stating clearly any additional assumption that you make.
   (b) How do such output changes affect the relative price of defence equipments?
   (c) Consider another country, say Bangladesh, producing both these goods under similar conditions as in Mongolia. Using the results in (a) and (b) above, what can you say about pattern of trade between Mongolia and Bangladesh if Mongolia is relatively capital-rich and Bangladesh is relatively labour-rich? Explain and illustrate your answer. $8 + 2 + 5 = 15$

2. Distinguish between an import quota and an import tariff. When will an import quota be binding? If the import demand function of a country is $p = 90 - M$, will the import quota that allows maximum of 45 units of imports be binding? Why does scarcity rent arise under a binding import quota? Whom does it accrue to? Explain your answer. Calculate the scarcity rent for the given import demand function and the volume of import quota. $2+1+3+2+4+3 = 15$

3. (a) What was the Bretton Woods currency system? Why was it abandoned in the 1970s?
   (b) Briefly distinguish between clean float and managed float.
   (c) How does a foreign capital inflow affect India's trade balance under clean float?
   (d) Do you agree with the statement that India's BoP Crisis that culminated in 1991 was largely caused by the overvalued pegged exchange rate regime? Explain your answer. $5+2+4+4=15$

4. Write short notes on **any two** of the following: $7.5 + 7.5 = 15$
   (a) Ecological dumping and unfair trade
   (b) Heckscher-Ohlin Theorem and its validity
   (c) Optimum Tariff
   (d) Foreign Trade Multiplier