Master of Arts Examination, 2023

(2nd Year, 1st Semester)

ECONOMICS

International Economics I

[Pure Theory of Trade]

Time : Two Hours | Full Marks : 30

Answer any ***two*** questions.

1. (a) Consider a small country producing three goods : two export goods, X and Z, and an import-competing good Y.Z is produced by skilled labour and capital, whereas X and Y are produced by unskilled labour and capital. All input coefficients are fixed. The import good Y is subject to an ad valorem tariff. In this set up, how will trade liberalization affect wage inequality?

(b) Suppose the export Good Z is a quality differentiated good, with its quality Q $\in [0,1]$ is observable to all. The world price of good Z increases with its quality Q. The per unit capital requirement in Z sector now increases at an increasing rate with its quality. How does the tariff reduction now affect the quality of the export good Z? Should the change in export quality change the wage inequality further? How would

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have the export-quality change if instead of tariff reduction, we had an exogenous growth in domestic capital stock ? 5+5+3+2=15

2. (a) Briefly discuss the causes behind trade in the following situations :

(i) trade in identical products between two countries

(ii) trade in differentiated products between similar countries.

(b) If a consumer cannot observe quality of a product, how does she decide about purchasing the product ? If there are both home produced good and foreign produced good in the market, which are distinguishable, and the consumer knows that qualities of these goods differ from each other even though she cannot observe the exact qualities, how will she decide about buying a home good ? In this context, if consumers in the two countries are of different types, then explain whether the two countries gain from trade. (3+3)+(2+2+5=15

3. (a) State the Goods Price Equalization (GPE) theorem and briefly discuss its implication. In a 2x2x2 competitive general equilibrium framework, prove the GPE theorem stating clearly the two assumptions underlying this theorem.

(b) Do you think that growth caused by foreign capital inflow will have similar welfare implications as growth caused by domestic capital accumulation for a small country under free trade? Explain our answer. 2+2+4+7=15

4. (a) Briefly discuss the different ways international trade affects growth rate of a country as conceived by Smith and Malthus.

(b) Why is it that the welfare implications of growth in an open economy may be quite different from that in a closed economy ? Is there any possibility of a country losing through growth ? Explain intuitively.

(c) How does trade between an innovating North and imitating South affect the product-growth rate in the North ? Should strict implementation of IPR protection in the South augment the rate of growth in the North ? Explain your answer. 4+(2+2)+7=15