BACHELOR OF ARTS EXAMINATION, 2024

(3rd Year, 1st Semester)

ECONOMICS (HONOURS)

PAPER : Core 5.1

(International Economics)

Time : *Two Hours* — *Full Marks* : 30

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

The figures in the margin indicate full marks.

1. Argue whether the following statements (***any two***) are True, False or Uncertain.

(a) When production technologies for two goods exhibit factor intensity reversal, they cannot be ranked uniquely according to their relative factor intensities.

(b) Equal-import home tariff and home import-quota are price-equivalent if the tariff revenue is redistributed to home consumers, the world relative price of foreign country's import good at the free trade equilibrium was $P^W = 2$ and foreign country's import demand function is given by $M_d^* = 100 - 10P^W$.

(c) Nominal devaluation of Indian rupee vis-à-vis USD reduces India's trade deficit evaluated in INR. 5+5

2. *(a)* Define a Trade Indifference Curve (TIC) and discuss its properties. Discuss the welfare property of a unique (and stable) free traded equilibrium using the TICs and offer curves of trading nations.

(b) In light of your answer in *(a)*, should a large country be better-off by promoting trade or restricting trade? 3+4+3

3. Production functions for textiles (T) and computer (C) in the home country are given by $X_T = 2L_T$ and $X_C = 3L_C$. Foreign workers are 50% more productive than home workers in textile sector but equally productive in the computer sector. Suppose, $L = 1000$ and $L^* = 500$.

(a) Can trade take place between these two countries? If so, who will export what?

(b) Does it matter if the foreign consumers have a taste bias in textiles?

(c) Draw the production sets of the two countries.

(d) If the post trade world relative price of textiles is 5/4, then, *(i)* find out the post-trade production bundles; *(ii)* determine the real income of the textile-exporting country and prove gains from trade for her in terms of real income gains. 2+1+2+1+4

4. *(a)* Briefly discuss how national incomes of India and China are inter-dependent through trade.

(b) Suppose there is a sudden change in tastes of Chinese consumers away from locally produced goods and towards the Indian goods. How does this affect national incomes of the two countries and the trade balance of India? 4+6

5. *(a)* Explain the interest-parity condition. How does it determine the exchange rate under clean float?

(b) If the central bank of a country pegs the exchange rate for its domestic currency, how does this interest-parity condition change?

(c) Can the central bank peg the exchange rate and also supply a fixed amount of money? Explain. (2+3)+1+4

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