

**Ex/PG/ECO/307/2024**

**MASTER OF ARTS EXAMINATION, 2024**

**(2nd Year, 1st Semester)**

**ECONOMICS**

**PAPER : PG/ECO/307**

**[ International Economics–I (Pure Theory of Trade) ]**

*Time : Two Hours*

*Full Marks : 30*

*Answer **any two** questions. 15×2=30*

1. (a) State the Gains from Trade (GFT) theorem. Does it mean that, (i) all economic agents in a trading nation gain and (ii) free trade maximizes a trading nation's welfare? Explain your answers.  
(b) Define and illustrate GFT by compensating variation and equivalent variation approaches.  
(c) Using the compensating variation approach, how would you measure GFT in a many commodity case?  
(1+2+2)+6+4=15
2. (a) How are the preference patterns defined in love-for-variety and characteristic approaches?  
(b) What are two main building blocks of characteristic approach to intra-industry trade (IIT)?

**ECO-168**

*[ Turn Over ]*

( 2 )

- (c) Show that under the characteristic approach, if IIT is costless, then both the trading nations unambiguously gain.  $5+4+6=15$

3. A small open economy exports good X produced in the informal sector using unskilled labour and land. It also produces an import-competing good Y using unskilled labour and capital. The producer of Y pay workers a fixed money wage. Import of Y is subject to an *ad valorem* tariff.

- (a) How does a reduction of tariff rate affect unskilled workers? Do the capital-owners and land-owners gain from such a policy action? Substantiate your answer with necessary algebra.
- (b) Suppose X is produced by the same capital as is used in Y instead of land. Does the informal wage change in the same way as in (a) after reduction of the tariff rate? If not, why does it differ?
- (c) Suppose, in the specific factor production structure specified in (a), the Government forces the producers of X to pay the same fixed money wage as paid in sector Y. How does a tariff reduction now affect the unskilled workers?  $8+4+3=15$

4. (a) Is growth through domestic capital accumulation welfare improving for a capital-abundant large open economy? Explain your answer in the context of  $2 \times 2$  competitive general equilibrium model with homothetic and identical tastes of all consumers.

( 3 )

- (b) Can growth lower welfare for a small open economy?
- (c) In the context of trade between a Solow-type fully employed North and Lewisian South with unemployment of labour, show that the long-run terms of trade consistent with steady state and balanced growth is determined by the exogenous growth of the Northern labour force.

$$5+4+6=15$$

