

PG Even Semester (CBCS) Exam., May—2017

ECONOMICS

(4th Semester)

Course No. : EC-403(C)

(International Economics)

Full Marks : 75Pass Marks : 30

Time : 3 hours

*The figures in the margin indicate full marks
for the questions*

Answer **five** questions, selecting **one** from each Unit

UNIT—I

1. (a) How is Ricardo's theory of comparative cost advantage superior to Smith's theory of absolute advantage? Briefly discuss. 5
- (b) From Table—1, indicate—
- (i) whether India has an absolute advantage or disadvantage in wheat and cloth;
- (ii) the commodity in which India and the US have a comparative advantage;

- (iii) the gains to India and the US if they exchange 6W for 6C : 10

Table—1

	India	US
Wheat (bushels/labour hour)	6	1
Cloth (yards/labour hour)	4	3

2. Explain Heckscher-Ohlin (H-O) theorem in terms of price criterion. How does Leontief's study contradict with the prediction of H-O theorem? Explain. 8+7=15

UNIT—II

3. What are meant by capital saving, labour saving and neutral technical progress? In this context, explain the impact of neutral technical progress on terms of trade. 7+8=15
4. What is foreign exchange risk? Elaborate. Suppose that the spot rate (SR) of rupee is ₹ 60 while the three-month forward rate is ₹ 62.
- (a) How can an Indian importer who has to pay \$ 10,000 in three months hedge his foreign exchange risk?
- (b) What happens if the Indian importer does not hedge and the spot rate (SR) of dollar in three months is ₹ 63? 6+4+5=15

(3)

UNIT—III

5. (a) Why are the concepts and measurement of deficit and surplus not appropriate under a flexible exchange rate system? 7
- (b) What is the difference between disequilibrium and deficit in the balance of payments? Elaborate. 8
6. How does real exchange rate affect the exports and imports of a nation? In this context, discuss the Marshall-Lerner condition required for devaluation to be effective to correct balance of trade deficit. 7+8=15

UNIT—IV

7. Why would real income of capital (the scarce factor in India) rise if India imposes a tariff on imports of cell phone (capital-intensive good)? Critically explain. 15
8. How is custom union different from economic union? Add a note on the impact of a trade creating custom union on economic welfare of domestic nation. 5+10=15

(4)

UNIT—V

9. What was the immediate cause of the collapse of the gold standard in 1931? What were the fundamental causes? What happened after 1931? Discuss. 4+4+7=15
10. Write short notes on the following : 7+8=15
- (a) Target zone
- (b) Over-valued pegged exchange rate regime
