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PG Even Semester (CBCS) Exam., May—2019

ECONOMICS

(4th Semester)

Course No. : ECOCC–403

(International Economics)

Full Marks : 70
Pass Marks : 28

Time : 3 hours

The figures in the margin indicate full marks for the questions

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

Unit—1

1. In the light of the Ricardian model, how would you evaluate the claim that developing countries can never gain from trade with powerful industrialized countries? Do you think public policy can influence comparative advantage of a country? Explain. 8+6=14

2. *(a)* Draw production possibilities frontiers (PPFs) for two nations *A* and *B* (on the same diagram) assuming that both have the same amount of resources and that *A* has an absolute advantage in both steel and wheat and a comparative advantage in steel production. Add a note on the shape of PPFs you have drawn.

(b) From an initial trading equilibrium position in the offer curve diagram, suppose that a country's consumers change their tastes so that they have a relatively stronger preferences for the good their country exports. What will happen to the willingness to trade and the terms of trade of this country? Illustrate and explain. 6+8=14

Unit—2

3. State and prove Rybczynski theorem. What is the implication of this theorem in international trade? Elaborate. 7+7=14

4. Briefly discuss the technological gap model sketched by Posner. What criticism are levelled against this model? Add a note on the various stages in a product life cycle hypothesis. 6+2+6=14

UNIT—3

5. What is foreign repercussions? How are foreign repercussions relates to international business cycles? Discuss. 4+10=14

6. What is meant by interest arbitrage? Why does this lead to foreign exchange risk? Suppose that the three-month treasury bills is (on a yearly basis) 12% in New York and 8% in Mumbai, and the spot rate of dollar is ₹ 70. How can a Indian investor undertake uncovered interest arbitrage? What happens is the spot rate of Dollar after three months falls down to ₹ 62? How can the investor undertake covered inter-arbitrage if the Dollar is at a three months forward discount of 1% (per year)? How much would the Indian investor earn on his foreign investment? 2+3+2+4+3=14

UNIT—4

7. What kind of exchange rate regime India adopted after independence? How is India's BOP crisis in early 1990s attributed to this regime? Also discuss the exchange rate system India follows presently. 5+3+6=14

8. "Macroeconomic requirements for a successful devaluation to correct trade balance is painful for a less-developed nations." Provide arguments in support of this statement. 14

UNIT—5

9. Distinguish between ad valorem tariff and specific tariff. What is meant by optimum tariff? Why are other nations likely to retaliate when a nation imposes an optimum tariff? What is likely to be the final outcome resulting from the process of retaliation? Elaborate. 2+2+2+8=14

10. Write short notes on the following : 7+7=14

(a) Trade Creating Custom Union

(b) Metzler Paradox

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