(Please write your Exam Roll No.)　　　　*Exam Roll No.* 08017721617

END TERM EXAMINATION

FIFTH SEMESTER [BA(ECONOMICS(HONS.))] NOV.-DEC., 2019

Paper Code: BAECO301	***Subject: International Economics***
Time: 3 Hours	***Maximum Marks: 75***

Note: Attempt all questions as directed. Internal choice is indicated.

Q1. Write short notes on (**Any Three**):- (5x3=15)
- a) Gains from Trade
- b) Stolper Samuelson Theorem
- c) Optimum Tariff
- d) Interest Rate Parity

Q2. What is the significance and importance of international economics in today's context? Elaborate the problems and challenges faced. **(15)**

OR

Q3. The Gravity model is used not only to explain trade between two countries, but also to investigate the reasons why they don't. Explain the basis of trade under the Gravity model and illustrate the anomalies with suitable examples and reasons. **(15)**

Q4. Home and Foreign can produce two Goods: rugs and chairs. Home has 2,400 units of labor available. The unit labor requirement in chair production is 4 and the unit labor requirement in rug production is 8. Foreign has a labor force of 1,600 and can produce a single chair with 10 units of labor and a single rug with 4 units of labor. **(15)**

(a) What is the opportunity cost of chairs in terms of rugs?

(b) In which country is the relative price of chairs lower?

(c) Construct the world relative supply curve.

(d) What is the world equilibrium if the relative demand curve of chair is given by;

$(Q_C/Q_R) = 4.5 - (P_C/P_R)$

(e) For what price range would both Home and Foreign gain from engaging in trade? What will be the pattern of trade? Do both countries gain from trade at this price?

OR

Q5. In case of internal economies of scale in a good, neither country is able to produce the full range of that good in autarky. In view of this statement and also in existence of comparative advantage, describe the pattern of trade in case of two countries, two factors of production and two goods. **(15)**

Q6. Home's demand curve for wheat is; D = 100 – 20P and its supply curve is; S = 20 + 20P. Foreign, has a demand curve; D* = 80 – 20P, and a supply curve; S* = 40 + 20P. **(15)**

[P.T.O.]

BAECO-301

P. 1/2

(a) Derive and graph Home's import demand schedule. What would the price of wheat be in the absence of trade?

(b) Derive and graph Foreign's export supply curve and find the price of wheat that would prevail in Foreign in the absence of trade.

(c) If Foreign and Home trade with each other, find and graph the equilibrium under free trade. What is the world price? What is the volume of trade?

(d) Home imposes a specific tariff of 0.5 on wheat imports. Determine and graph the effects of the tariff on the following: (1) the price of wheat in each country; (2) the quantity of wheat supplied and demanded in each country; (3) the volume of trade.

(e) Determine the effect of the tariff on the welfare of each of the following groups: (1) Home Producers of wheat; (2) Home consumers; (3) the Home government.

(f) Show graphically and calculate the terms of trade gain, the efficiency loss, and the total effect on welfare of the tariff.

OR

Q7. (a) Nation 1 is "small" and is unable to affect world prices. It imports cotton at a price of \$10 per bag. The demand curve is: D = 400 – 10P and the supply curve is; S = 50 + 50P. **(15)**

Determine the free trade equilibrium. Then calculate and graph the following effects of an import quota that limits imports to 50 bags.

(i) Quota rents
(ii) Consumption distortion
iii) Production distortion
iv) Gains from terms of trade

(b) Using the concept of producer and consumer surplus, show the gains and losses from export subsidies.

Q8. "An increase in the Money Supply causes the Exchange Rate to overshoot its long run equilibrium level in the short run." Explain this statement with respect to a permanent increase in money supply. **(15)**

OR

Q9. In the long run a permanent increase in the Money Supply results in a proportional increase in both the price level and the exchange rates, leaving the real interest unchanged. Elaborate. **(15)**

****

BAECO-301
P2/2