END TERM EXAMINATION

FIFTH SEMESTER [BA(ECONOMICS)] JANUARY 2024

Paper Code: BAECO-301   **International Economics**

Time: 3 Hours   **Maximum Marks: 75**

Note: Attempt any five questions.

Q1 Write short note **(any three)** on the following: **(3x5=15)**
   (a) Stolper-Samuelson theorem
   (b) Leontif paradox
   (c) Purchasing power parity
   (d) Liquidity Trap

Q2 Sri Lanka has 800 hours of labour available and Malaysia has 1200 hours of labour available. Both countries can produce tea and rubber. The unit labour requirement for Sri Lanka in production of tea is 8 while in rubber it is 4. The unit labour requirement for Malaysia in production of tea is 6 while in rubber it is 1.   **(4+5+4+2)**
   i) Construct Sri Lanka's and Malaysia's production possibility frontiers, algebraically and diagrammatically?
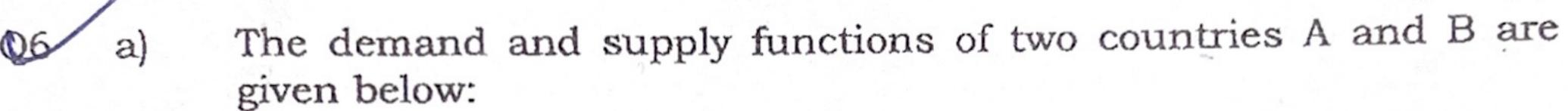   ii) If there is free trade between two countries, what is the equilibrium relative price of tea (If demand for tea/demand for rubber = price of rubber/ price of tea)?
   iii) Discuss the pattern and gains from trade?
   iv) If Sri Lanka is a small country what will be the after trade relative price of tea?

Q3 a) With the flexible exchange rate, the exchange rate can overshot to its new long run equilibrium level after monetary expansion. Given the above statement, explain that by introducing an additional J-curve effects amplify the volatility of exchange rates.   **(8)**
   b) Which stabilisation policy do you find to be more effective under the fixed exchange rate: monetary or fiscal policy? Why?   **(7)**

Q4 a) If the dollar and euro interest rate are the same i.e 4% per year, what is the relationship between current equilibrium $/€ exchange rate and its expected future level? If the expected future $/€ exchange rate is $ 1.62 per € and the US interest rate remains 4% per year but Europe's interest rate changes to 3% per year, what is the new equilibrium $/€ exchange rate ?   **(5)**
   b) Explain how expectation of future devaluation causes a BOP crisis under fixed exchange rates, using suitable diagrams.   **(10)**

Q5 Illustrate the relevance of intra- industry trade in economy. How is it different from that of inter-industry trade? If firms are not symmetric, then international trade would generate both winners and losers among firms in an industry having internal economies of scale and imperfect competition. Discuss.   **(15)**

P.T.O

Q6 a) The demand and supply functions of two countries A and B are given below:

$$D^A = 1600 - 40P, S^A = 800 + 40P$$
$$D^B = 2000 - 40P, S^B = 400 + 40P,$$

Country B imposes a unit tariff of 5 per unit; calculate the terms of trade gain, efficiency losses and total effect on welfare of the tariff.

(8)

b) Use the standard model to discuss the effect of import tariffs and export subsidies on terms of trade

(7)

Q7 a) Calculate the Effective rate of protection on motorcycles in a country which imposes 20% tariff on motorcycle which has a world price of $800 and 10% tariff on all motorcycle parts which costs $400

(5)

b) Highlight the applicability of Hecksher-Ohlin model in the light of Leontif paradox.

(10)

Q8 a) England primarily exports manufactured goods and imports food and oil. Discuss the effect on England's terms of trade of the following:

(8)

i)   A pipeline explosion in Iraq disrupts oil supply

ii)   German engineers develop a fusion reactor that replaces fossil fuel electricity plants

iii)   A harvest failure in United States

iv)   A reduction in England's tariff on imported cheese

b) "An economy faces trade-off between consumption today and consumption in future even in the absence of international capital movements". Discuss this statement in the light of standard trade theory using diagrams.

(7)

Q9 In the Ricardian two commodities model, the comparative advantage functions to determine the pattern of specialisation for each country. Does comparative advantage also function to determine pattern of specialisation if both the countries are producing more than two goods? If yes, elaborate how and if no, then explain why not?

(15)

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