B.A. (Honours) Examination, 2022
Semester-IV (CBCS)
Economics
Course: CC-10
(International Economics I)

Time: 3 Hours   Full marks: 60

Questions are of value as indicated in the margin

Answer **Question no 1** and **any three** from the rest of the following questions

1. Consider a country, call it Home, which produces computers (C) and food (F) using capital (K) and labor (L). The techniques of production in each industry are Leontief, and hence unit factor requirements are fixed and given by: $a_{KC} = 3$; $a_{KF} = 1$; $a_{LC} = 2$ and $a_{LF} = 4$. Note a_{ij} is the number of units of factor i required to produce a unit of good j.

a. Which industry is capital intensive? How does the capital-labour ratio in each industry depend on the Relative wage $W/_R$? Note W and R are per unit price of labour and capital respectively.

b. Suppose that the world price of computers is Rs 16/- and the world price of food is Rs 12/-. Assume that Home country produces both goods. What are the free trade factor price levels of W and R?

                                                                 (5+2)+8

2. a.   "In the absence of international trade, the relative prices of goods are equal to their relative unit requirements"-Prove this statement in the context of Ricardian Model.

    b.   Use this model to show the possibility of trade between two countries.

                                                                 7+8

3. a.   Show that the gains from trade can be decomposed into two parts, viz; gains from specialisation and gains from exchange.

    b.   In Heckscher-Ohlin set up, will there be any gain from trade for a country where all factors of production are completely immobile across sectors?

                                                                 8+7

4. State and explain Factor Price Equalization theorem graphically. Discuss the conditions under which Factor Price equalization theorem will not be valid.

9+6

5. a.   Which one is more preferable to a country for improving the terms of trade: an import tariff or an export subsidy? Explain with reasons.

   b.   What is meant by an optimum tariff? Derive the formula for the optimum tariff.

7+(2+6)

6. a.   Define Trade Indifference curve. Derive offer curve for a particular country using trade indifference curve.

   b. Write a short note on Non-tariff barriers of trade.

(4+5)+6

7. Write the components and their subcomponents of the Balance to Payments (BOP) of a country. How do you relate the Balance of Trade (BOT) with the Balance of Payments (BOP)? Derive the foreign trade multiplier of an open economy.

7+2+6