

M.A. Examination, 2023
Semester-IV
Economics
Course: OP-11 (Optional)
(International Trade Policy)

Time: 3 Hours

Full marks: 40

Questions are of value as indicated in the margin.

Answer any four questions.

1. (a) In a perfectly competitive framework, for a large economy, compare between imposition of import tariff and quota in terms of enhancing home country welfare.
(b) How does the above analysis change in case of pure monopoly?
5+5
2. Using a game theoretic framework, prove that – (i) bilateral trade negotiation is always better than unilateral trade restriction and (ii) providing production subsidy in an international duopoly framework may be counterproductive in the presence of information asymmetry.
3+7
3. How does the determination of foreign exchange rate differ between international commodity markets and asset markets? In these contexts, how do the appreciation and depreciation of home currency take place in the two different markets?
10
4. Let the USA be your home country and the EU be the foreign bloc. Analyse the effects of decrease in nominal money supply in the EU on the US Dollar both in the short and long run, using the asset market approach.
10
5. (a) Between the PPP adjusted exchange rate and the real exchange rate, which one do you think would better represent the price comparison between home country and abroad?
(b) Show that, following commodity trade, increase in relative demand for home output would cause nominal appreciation of home currency, while increase in relative output supply would have an ambiguous effect on nominal exchange rate.
3+7

PTO

6. Using the relationship between output and exchange rates in the output market (DD) and asset market (AA), compare the effectiveness of (i) monetary policy and (ii) fiscal policy both in short and long run.

5+5

7. In the context of international asset market investments, how can domestic and foreign investments become imperfect substitutes in the presence of risk factors? Given that the government goes for a fixed exchange rate system, examine the effectiveness of the sterilized intervention under this circumstance.

7+3

8. How is Balance-of-Payment (BoP) crisis related to capital flight? Using a suitable framework, predict the timing of BoP crisis in the presence of speculative attack.

5+5