

M.A. Examination, 2024
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. Using '2 countries - 2 commodities' trade framework, determine the changes in welfare in home country when (a) the home practices free trade and (b) protects import with ad-valorem tariff. In case of (b), also calculate the value of optimum tariff.
3+7
2. In an international asset market, how is the covered interest rate parity condition determined? Illustrate the case and show that if depreciation of home currency is expected, it does happen.
4+6
3. What is exchange rate overshooting? Why does it happen only in long run and not in short run? Illustrate with suitable diagrams.
10
4. An increase in home interest rate appreciates nominal exchange rate but depreciates the PPP adjusted exchange rate at home – explain these seemingly paradoxical results with suitable diagrams.
10
5. (a) Why do we need real exchange rate? How is it related to the nominal exchange rate? Following their interrelations, derive the real interest rate parity condition.
2+3+5
6. Using the relationship between output and exchange rates in the output market (DD) and asset market (AA), compare the effectiveness of monetary and fiscal policies with suitable diagrams under: (a) flexible exchange rates and (b) fixed exchange rates.
5+5
7. Write short notes on:
(a) Brander-Spencer Framework & (b) Sterilized foreign exchange intervention.
6+4