B.A. (Honours) Examination, 2015
Semester-VI
Economics
Course – H.15
(International Economics)

Time: 3 Hours **Full Marks: 40**

Questions are of value as indicated in the margin.

Answer ***any four*** questions.

1. (a) Consider two countries A and B producing two goods X and Y with a single factor labour. The unit labour requirements for X and Y are respectively 4 and 1 in A, and 5 and 2 in B. The total availability of labour in A and B are 400 units and 500 units respectively
   (i) Draw the PPFs for the two countries;
   (ii) In the absence of trade what are relative prices of X in the two countries.

   (b) 'Trade between two countries can benefit both countries if each country exports that good in which it has comparative advantage: – Justify. (3+3)+4

2. Diagrammatically show why relative price of a good would be relatively low in a country that intensively uses it's abundant factor into the production of that commodity. Assume that the demand pattern is same across nations. 10

3. Draw suitable diagram(s) to explain what is meant by factor intensity, and factor intensity reversal. 5+5

4. Use partial equilibrium diagram(s) to examine the effects of import tariff and export subsidy in a small country set up. 6+4

5. (a) Define nominal exchange rate? How the rate is determined in a foreign exchange market following demand and supply?

   (b) Show that there is a two-way dependence between exchange rate and amount of foreign trade (Combining both export and import). (2+3)+5

6. (a) Derive the interest rate parity condition in foreign exchange market following an asset approach.

   (b) From there show that – 'actual exchange rate always follows the expected exchange rate'. 5+5

7. (a) What do you mean by the Law of One Price (LOOP)? Hence, describe the PPP adjusted exchange rate both in absolute and relative terms.

   (b) Does the PPP adjusted exchange rate truly represent nominal exchange rate? – Give reasons to your answer. (2+5)+3

8. Write notes on (***any two***): 5+5
   (a) Dutch disease.
   (b) Lerner's Symmetry theorem.
   (c) Leontief Paradox.
   (d) World Trade Organization.