M.A. Examination, 2019

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. In a 2×2 open economy framework, first model a change in trade driven income without tariff. How does the situation change when tariff is imposed and hence determine the value of 'optimum tariff'. 4+6
2. (a) Consider a small open economy in a perfectly competitive framework and check why tariff is a better trade instrument than non-tariff barrier when protection is in place.

   (b) Should tariff still be preferred to quota if it becomes a monopoly framework instead of perfect competition? 5+5
3. Assume that there is an international duopoly market in airplane production. Check the effectiveness of government policies in the presence of (a) full information and (b) information asymmetry where there is a 'first-entry advantage'. 10
4. Suppose that a British has £10,000 to invest. London bank gives an interest rate of 10% on pounds while in the USA it is 15% on dollar. Spot rate is $E_{\$/£}$= 1.5 and Expected rate is $E^{e}_{\$/£}$ = 1.38. Check where the British should invest his money and then derive the interest rate parity condition. 10
5. Suppose there is a reduction in aggregate real money demand, that is, a negative shift in the aggregate real money demand function in Europe. Trace the short-run and long-run effects on the exchange rate, interest rate, and price level in the USA. 10
6. An increase in the rate of interest at home causes home currency to appreciate under asset market approach but the similar increase in home rate of interest causes currency to depreciate under PPP – examine and justify the statement. 10
7. Define real exchange rate and derive the relationship between nominal and real exchange rates. Based on this relationship show that –

   (i) An increase in relative demand for home output will cause home nominal exchange rate to appreciate and

   (ii) An increase in relative supply for home output will have ambiguous effect on home nominal exchange rate. 10
8. In the presence of the DD & AA (usual meanings) schedules with full employment equilibrium, examine the effects of permanent expansionary monetary and fiscal policies and justify which one you will choose as an economic policy maker. 10