

**M.A. Examination, 2016**  
**Semester-III**  
**Economics**  
**Course-XII (Group-B) (Special Paper)**  
**( International Trade-I )**

**Time: 3 Hours**

**Full Marks: 40**

*Questions are of value as indicated in the margin.*

Answer *any four* questions

1. In a  $2 \times 2$  case, let  $D_C$  &  $D_F$  stand for demand for cloth and food with  $P_C$  and  $P_F$  are their respective price level for home country. Let the symbols for foreign country be represented by an additional '\*'. In this circumstances, show that change in home country's real income depends upon the terms-of-trade effect under free trade. If the home country imposes a tariff 't', derive the value of optimal tariff. 10
2. What is capital flight? Show that in the presence of corrupt traders, under a partial equilibrium framework, a preferential channel may lead capital flight compared to a non-preferential channel. 2+8
3. What is quantitative restriction (QR) on import? Show that under fixed exchange rates in QR regime importers reduce their imports at black market foreign exchange rate if there is devaluation of domestic currency. 1+9
4. In a game theoretic framework, discuss the 'Brander-Spencer' model with specific example. What are the key assumptions that allow strategic trade policy to work efficiently in this model? 7+3
5. An increase in the relative demand for domestic output causes long run appreciation of domestic currency. Why does an increase in the relative supply of domestic output not have a definite effect on domestic currency? – Explain. 5+5
6. What are the factors that affect the output market (DD schedule) & the asset market (AS schedule) in short run? Discuss the role of permanent shift of monetary and fiscal policies on DD & SS schedule. (2+2)+(3+3)
7. How does an increase in money supply in European Union (EU) affect the American (US) rate of interest? Suppose that in this framework, there is a reduction in aggregate domestic money demand, i.e. a negative shift in aggregate real money demand function. Trace the short run and long run effects on the exchange rate, interest rate and price level. 3+7
8. Write short notes:
  - a) Real interest rate parity condition.
  - b) Foreign exchange market with imperfect asset substitutability. 5+5