

**M.A. Examination, 2018**  
**Semester-III**  
**Economics**  
**Course – OP-3 (Optional)**  
**(Trade Theory)**

**Time: Three Hours**

**Full Marks: 40**

*Questions are of value as indicated in the margin*

Answer questions no. **1 is compulsory**. Attempt *any three* from the rest.

1. Use a one-factor-one-commodity-two country Ricardian model with continuum of stages of production to determine the stages of specialization in the production of good. Also determine the equilibrium wage ratio. 6+4
  2. How can we determine the equilibrium wage ratio of two trading countries in a generalized Ricardian model where labor is used as a single factor production to produce  $n$  number of commodities? 10
  3. Show that time zone difference between trading countries may also from the basis of trade. Will the result change if we introduce transport cost? 7+3
  4. Assume that two goods X and Y are produced in a small open economy. Both X and Y use a mobile factor K, whereas they use labor of different skills as specific factors. Both X and Y also requires the service of intermediation to conduct their business. Intermediation service requires both types of labor as inputs. Also note that differently skilled labors are used in fixed proportion to produce intermediation activities. Build a specific factor competitive model of trade under the assumption of full employment and constant returns to scale in production. In such a setup, examine the condition for an increase in wage inequality between differently skilled labor due to a change in the cost of intermediation. 3+7
  5. Both mathematically and diagrammatically elaborate the Rybczynski magnification effect in a standard static competitive model of trade that is Heckscher-Ohlin in nature. 6+4
  6. Following Krugman's (1979) arguments diagrammatically explain the adjustment process from short run equilibrium to long run equilibrium where consumers have love for variety preference and the market is imperfectly competitive. 10
  7. In the backdrop of question no. 6 examine how the effect of labor growth on the equilibrium level of output, number of varieties produced, level of individual consumption, and real wage rate. 10
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