

2020

ECONOMICS — HONOURS

Fifth Paper

(Group - A)

Full Marks : 50

The figures in the margin indicate full marks.

*Candidates are required to give their answers in their own words
as far as practicable.*

Section - A

1. Answer *any two* questions :

- (a) “In the one factor model, absolute productivity advantage in an industry is neither necessary nor sufficient to gain from foreign trade”. — Justify. 10
- (b) Is it ever possible for the physical definition of relative factor abundance to contradict the corresponding price definition? Explain your answer. 10
- (c) How does the growth of a large country affect its terms of trade in the global market? Explain the concept of immiserizing growth in this context. 5+5
- (d) What is Metzler’s Paradox? Can it arise if foreign country’s import demand is price elastic? 10
- (e) What is Leontief Paradox? Give any two explanations of the paradox. 10
- (f) Explain the non-equivalence of an import tariff and an import quota under a monopoly. 10
- (g) Distinguish between ‘clean float’ and ‘dirty float’ of foreign exchange regime. 10
- (h) Explain the ‘Swan diagram’ of internal and external balance in an economy. 10

Section - B

Answer *any two* questions.

- 2. (a) Explain a situation where entire gains from trade arise due to exchange.
- (b) Explain a situation where demand bias (or taste bias) causes trade patterns that follow the H–O theorem even if both the countries have identical factor endowments. 7½+7½
- 3. “When the rest of the world experiences economic growth, the effect may be bad for a nation.” — Do you agree? Explain. 15
- 4. “If the factor-endowment ratios of two trading countries differ widely, free trade may not lead to factor-price equalisation”. Illustrate the statement with diagram. 15

Please Turn Over

5. Which one is preferable to a country, depending on the terms of trade : an import tariff or an export subsidy? Explain with reasons. 15
6. 'Home' demand and supply curves of its importable good are given by :
 $D^H = 120 - 25 P$ and $S^H = 20 + 15 P$
While 'Foreign' demand and supply curves of the good are given by :
 $D^F = 70 - 20 P$ and $S^F = 30 + 10 P$
- (a) Construct Home's import demand curve.
(b) Construct Foreign's export supply curve.
(c) Find the equilibrium price under free trade.
(d) Determine the prices in the two countries when a tariff of 0.6 per unit is imposed on imports of 'Home'. 4+4+3+4
7. (a) Clarify the concept of Voluntary Export Restraint (VER) with a proper example.
(b) What is effective rate of protection? $7\frac{1}{2}+7\frac{1}{2}$
8. Derive the open economy fiscal multiplier $(\Delta Y / \Delta \bar{G})$ without repercussion in a Keynesian model. (ignore asset markets) 15
9. (a) Derive the demand curve for foreign exchange of a trading country.
(b) Analyse the effects of changes in exchange rate on domestic prices and the terms of trade. 5+10
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