PG Even Semester Exam, May 2025

Economics

4th Semester

COURSE NO. ECO-652

[International Economics]

Full Marks : 70
Pass Marks : 28

Time : 3 hours

The figures in the margin indicate full marks for the questions

Answer five questions, taking one from each Unit

UNIT-I

1. 'Gains from trade is not always a zero sum game'. Elaborate. Is it possible for a nation to gain from trade without specialization? 7+7=14

2. Discuss the determination of terms of trade (TOT) with the help of offer curves. Does a determination in TOT always indicate loss in economic welfare of a nation? Elaborate. 7+7=14

UNIT-II

3. Discuss the impact of neutral technical process on a nations terms of trade. How does the size of the economy affect the outcome? 10+4=14

4. Explain the concept of factor reversal and demand reversal in the context of the Heckscher-Ohlin theory. How do these reversals challenge the predictions of the theory. 4+10=14

UNIT-III

5. Discuss the role of the forward exchange market in covering foreign exchange risk. Explain with the help of an example. Suppose an Indian importer has to pay $ 10,000 after three months. The spot rate is Rs. 83/$ and the 3 month forward rate is Rs 85/$. How much does the importer pay if they hedge using a forward contract? 10+4=14

6. Differentiate between stabilising and destabilising speculation in the foreign exchange market. How do they affect exchange rate volatility? The current exchange rate is Rs. 80/$. Due to speculative activity, it rises to Rs. 85/$ next week and then drops to Rs. 75/$. Show how this could be an example of destabilizing speculation with a diagram. 5+5+4=14

UNIT-IV

7. What kind of exchange rate regime India adopted after Independence? How India's BOP crisis in the early 1990s is attributed to this exchange rate regime? What kind of exchange rate system Indian follows presently? Discuss. 6+3+5=14

8. Trace the historical evolution of the international monetary system. What were the major features and limitations of the Bretton Wood system? 7+7=14

UNIT-V

9. a. What kind of tariff did the US start imposing on certain countries in recent times under the new administration? 2

   b. Illustrate the meaning of optimum tariff with the help of a diagram. 4

   c. Use the following data to analyse the effect of a US tariff on Pharmaceutical imports from India:

   The US demands curve: D(P) = 1200-50p

   The US supply curve : S(P) = 20p+40

   Calculate and illustrate the following:

   i. Consumption effect

   ii. Production effect

   iii. Government revenue

   iv. Cheque on trade volume

   v. Dead weight loss of a $3/ton specific tariff on pharmaceutical imports when the world price is $ 12/ton.

10. Why do nations join Regional Trade Blocks (RTBs)? Describe the different stages of economic integration with features and examples. Show with a diagram how a custom union with a less efficient partner can reduce welfare due to trade diversion. 2+6+6=14

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