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Sr. No. of Question Paper : 5347

Unique Paper Code : 12277509

Name of the Paper : International Trade

Name of the Course : B.A. (H) Economics

Semester : V

Duration : 3 Hours   Maximum Marks : 75

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.

2. Attempt any **FIVE** questions in all.

3. **All** questions carry equal marks.

4. Use of a simple calculator is allowed.

1. The unit labour requirements for the production of goods X and Y in the Home country are 24 and 12, and in the Foreign country, are 18 and 3, respectively. The labour in Home is 2400 and that in Foreign is

P.T.O.

3600. The tastes and preferences are the same for both economies and are given by the relative demand curve : $X/Y = P_y/P_x$. Given this information, answer the following questions :

(a) Derive the production possibility frontier of both economies.

(b) Which country has a comparative advantage in the production of Good X?

(c) Sketch the relative demand and relative supply curves with a neatly labelled diagram.

(d) Discuss the nature of specialization.   (15)

2. Answer the following questions :

(a) Consider two countries: A and B. The real wage rate in Country A is higher than the real wage rate in Country B. How would real wages be affected if labour is perfectly mobile between the two countries?   (7)

(b) Consider two countries, 1 and 2, producing two goods, A and B. Country 1 exports Good A, while Country 2 exports Good B. Using a Standard Trade Model, assess the consequences of an export-biased growth in Country 1. Would this strategy end up favouring Country 2? Illustrate your answer using a suitable diagram in the RD-RS framework. (8)

3. Answer the following questions :

(a) Consider a standard Heckscher-Ohlin (HO) Model, where two countries, Home and Foreign, produce two goods, cheese and wine, using labour (L) and capital (K). Home is relatively labour-abundant, and Foreign is relatively capital-abundant. Assume that wine is relatively capital-intensive and cheese is relatively labour-intensive.

(i) Discuss the pattern of trade between the two countries. (5)

(ii) Under what condition(s) factor price equalization may be obtained? Discuss with the help of a diagram showing a segment of equalization.   (5)

(b) Write a short note on the Leontief Paradox.

(5)

4. Answer the following questions :   (9+6)

(a) There is a significant agglomeration of various service industries in Gurgaon (Gurugram), India. How do you account for the same?

(b) Write short notes on any two of the following :

(i) Gravity Model as an explanation for trade

(ii) Rationale for Horizontal FDI

(iii) Learning Curves

5. Answer the following questions : (8+7)

(a) Consider two countries: Techland and Agriland. The firm in Country Techland finds it profitable to offshore less-skilled activities abroad to Country Agriland. What will happen to the relative wages of the skilled labour in both the countries? Explain with the help of diagram(s).

(b) Consider two firms, 1 and 2, operating in a monopolistic competitive market. The cost functions of the firms are : $TC_1 = 20 + 20Q$ and $TC_2 = 80 + 80Q$, respectively. Would it be rational for both firms to compete in the world market, given the market demand curve of $Q = 100 - P$, and they have to bear a trade cost of \$30 per unit? Explain with the help of a diagram.

6. Consider a small open economy trading in the world market of laptops at the world price of \$70. The demand and supply conditions of laptops within the country are as follows : $Q_d = 90 - 0.5P$; $Q_s = 30 + 0.5P$.

(a) Given this information, identify whether this country is an importer or exporter of laptops.

(b) Calculate the number of laptops that this country will be trading.

(c) Suppose the government gives an export subsidy of $10 per unit. Calculate the losses due to the production and consumption distortions.

(d) If the government gives a production subsidy of $10 per unit instead of an export subsidy. Will there be any change in the production and consumption distortion losses?

(e) Draw a suitable diagram to illustrate and answer as to which subsidy is better: export subsidy or production subsidy. (15)

7. Answer the following questions : (9+6)

(a) Discuss the actions that can be taken by the consumers, unions, and firms of respective countries to improve the labour standards while trading in international markets.

(b) Calland is a new entrant in the world market for smartphones. It is planning to launch its new smartphone in the international market. However, it has a threat that Ringland (which is an incumbent) might launch a similar smartphone and capture the international market. The following matrix shows the payoffs of the two countries on launching the smartphone. What is the amount of subsidy that Calland should give to its producers to deter the entry of Ringland into the international market? Is this subsidy justifiable, given that Ringland is incumbent in the market? Discuss.

		Country Calland	
		Launch	Do not launch
Country Ringland	Launch	(-10,-10)	(150,0)
	Do not launch	(0,150)	(0,0)

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8. Answer the following questions : (5+5+5)

(a) Consider two countries, A and B, producing two goods, rice and wheat, under the perfectly competitive market structure. Under free trade, Country A offers rice in exchange for wheat from Country B. Illustrate this scenario using the offer curves diagram, assuming well-behaved offer curves for the two countries.

(b) "Trade policies aimed at promoting economic development often lead to rates of effective protection much higher than the tariff rates themselves." Discuss.

(c) Write a short note on optimum tariff.