

LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

M.A. DEGREE EXAMINATION – ECONOMICS

FIRST SEMESTER – NOVEMBER 2009

EC 1810 - INTERNATIONAL ECONOMICS

Date & Time: 13/11/2009 / 1:00 - 4:00 Dept. No.

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Max. : 100 Marks

PART- A (5 X 4 = 20 marks)

Answer any FIVE questions in 75 words each. Each question carries FOUR marks.

1. State the law of comparative advantage as enunciated by Ricardo.
2. How does a customs union differ from a free trade area?
3. Define income terms of trade and commodity terms of trade.
4. The current short term interest rate in India is 4% while it is 1% in the UK. The spot rupee-pound exchange rate is Rs.79.74: £1. Price a 3 month and a 6 month forward contract for the rupee-pound exchange rate.
5. If a country exports \$40 million in textiles per year and imports \$10 million in textiles per year, estimate the country's intra-industry trade index for textiles. Explain the significance of this index having a value of either zero or one.
6. The free trade price of an imported leather jacket in France is €100. If it is produced locally it requires € 70 worth of imported components. France imposes a 20 per cent nominal tariff on each imported leather jacket but a 5 per cent nominal tariff on the imported components. Calculate the rate of effective protection provided to domestic manufacturers of leather jackets in France.
7. Differentiate between trade creation and trade diversion.

PART- B (4 X 10 = 40 marks)

Answer any FOUR questions in 300 words each. Each question carries TEN marks.

8. With reference to the table below and assuming that the wage rate per man-hour is \$6 in the US and £1 in the UK

Commodity	U.S.	U.K.
Wheat (bushels/man-hour)	4	1
Cloth (yards/man-hour)	3	2

- a) express P_w and P_c in the US in terms of dollars and in the UK in terms of pounds in the absence of trade.
- b) which commodity will the US import and export if the exchange rate between the dollar and the pound is £1 = \$3 ?
- c) what if £1 = \$0.50 , £1 = \$2, £1 = \$1 ?
- d) when will trade be balanced between the US and the UK?

9. Explain diagrammatically the impact of the RBI's recent intervention in the foreign exchange market to prevent the rupee from steeply depreciating against the US dollar.
10. Discuss the issues plaguing the WTO trade negotiations under the Doha Round.
11. The market rate for Indian Rupees is 3% p.a. while that for US Dollars is 8% p.a. (both with continuous compounding). A financial institution enters into a currency swap whereby it receives 4% p.a. in Rupees and pays 7% p.a. in Dollars once a year. The principals in the two currencies are Rs.1200 million and \$10 million. The maturity period of the currency swap is 3 years and the current spot exchange rate is Rs.48 = \$1. Determine the value of the currency swap in dollars.
12. Compare foreign exchange options with foreign exchange forwards and futures.
13. Define the concept of balance of payments. How are the following transactions entered into the US balance of payments?
 - a) The US gives \$200 cash aid to the government of India.
 - b) India uses the cash aid to import \$200 worth of machinery from the US.
 - c) If the above two transactions occur during the same year, how will they be reflected in the US balance of payments?
14. Differentiate between Currency Board Arrangements and Dollarisation. Illustrate your answer with suitable examples.

PART- C (2 X 20 = 40 marks)

Answer any TWO questions in 1200 words each. Each question carries TWENTY marks.

15. Explain the Stolper-Samuelson theorem and show how the Metzler paradox is an exception to this theorem.
16. Describe the salient features of the European Union as a good example of economic integration.
17. Discuss the Heckscher-Ohlin model of international trade. What did Leontief discover by testing this model empirically?
18. With the help of a diagram explain the IS-LM-BP model with flexible exchange rates and perfect capital mobility.
