



LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

M.A. DEGREE EXAMINATION - ECONOMICS

FIRST SEMESTER – NOVEMBER 2013

EC 1810 - INTERNATIONAL ECONOMICS

Date : 16/11/2013
Time : 1:00 - 4:00

Dept. No.

Max. : 100 Marks

PART- A

(5 X 4 = 20 marks)

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

1. Define income terms of trade.
2. The current short term interest rate in India is 4% while it is 1% in the US. The spot rupee-dollar exchange rate is Rs.62.50: \$1. Price a 3 month forward contract for the rupee-dollar exchange rate.
3. The free trade price of an imported wrist-watch in India is \$100. If it is produced in India it requires \$50 worth of imported components. If India imposes a 20 per cent nominal tariff on each imported wrist-watch, but a 5 per cent nominal tariff on its imported components, calculate the rate of effective protection provided to domestic manufacturers of wrist-watches in India.
4. What is an imitation gap?
5. Differentiate between a free trade area and a customs union.
6. Define the term “dumping”.
7. What is a currency swap?

PART- B

(4 X 10 = 40 marks)

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

8. Explain product cycle theory with the help of a suitable diagram.
9. Compare foreign exchange options with foreign exchange forwards and futures.
10. Differentiate between Currency Board Arrangements and Dollarisation. Illustrate your answer with suitable examples.
11. The consumers in the UK are willing to pay a maximum price of £4.5 for a T-shirt. Assume the local market for this product clears at £3 and 30 T-shirts. At the free trade price of £1 for each T-shirt, 70 T-shirts are demanded locally. If the UK imposes a 100 per cent import tariff on each T-shirt, estimate the reduction in consumer’s surplus, the gains to British producers and the UK government, and the deadweight loss to British society as a result of this tariff.
12. Examine strategic trade policy using Boeing and Airbus industries as suitable examples.

13. Mention the various components of a nation's balance of payments. Why is the single entry, Errors and Omissions, often required in a nation's balance of payments?
14. With reference to the following table, determine if trade will be mutually beneficial for India and the US if the exchange rate was Rs.50:\$1 or Rs.60:\$1 or Rs.70:\$1 and if one hour of labour time costs \$6 in the US and Rs.100 in India.

Commodity	U.S.	India
Wheat (bushels/man-hour)	6	1
Cloth (yards/man-hour)	4	2

PART- C

(2 X 20 = 40 marks)

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

15. With the help of the SWAN model, show how internal and external balance could be achieved simultaneously under a fixed exchange rate regime.
16. Explain Jacob Viner's theory of the customs union to show how a customs union contributes to trade creation and trade diversion.
17. Using Heckscher-Ohlin theoretical framework, demonstrate that trade is mutually beneficial in the following cases: i) similar factor endowments and similar tastes and preferences, ii) similar factor endowments but different tastes and preferences, iii) different factor endowments and different tastes and preferences.
18. What are offer curves? Derive equilibrium terms of trade between the US and the UK using offer curves.
