



**LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034**

**M.A. DEGREE EXAMINATION – ECONOMICS**

FIRST SEMESTER – NOVEMBER 2016

**16PEC1MC05 / EC 1810 - INTERNATIONAL ECONOMICS**

Date: 11-11-2016  
Time: 01:00-04:00

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 the concept of opportunity cost as stated by Haberler.
2. Mention the features of the gold standard.
3. How is dumping practiced in international trade today?
4. What are Special Drawing Rights?
5. Define a currency swap.
6. The free trade price of an imported wrist-watch in India is \$100. If it is produced in India it requires \$60 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.
7. Distinguish between a tariff and a quota.

**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 following table, determine if trade will be mutually beneficial for India and the US if the exchange rate was Rs.40:\$1 or Rs.50:\$1 or Rs.60:\$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

9. Using a suitable diagram, suggest an appropriate fiscal and monetary policy mix for the following macroeconomic conditions: i) unemployment, BOP surplus; ii) inflation, BOP surplus; iii) inflation, BOP deficit; iv) unemployment, BOP deficit.
10. Explain with the help of a diagram how the imposition of a tariff shifts the rewards in the tax imposing country from its abundant factor to its scarce factor of production.

11. Explain Product Cycle Theory with the help of a suitable diagram.
12. Explain the role of the WTO in international trade today.
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. 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.

**PART- C            (2 X 20 = 40 marks)**

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

15. What are offer curves? Derive equilibrium terms of trade between the US and the UK using offer curves.
16. Explain Jacob Viner's theory of the customs union to show how a customs union contributes to trade creation and trade diversion.
17. With the help of the SWAN diagram explain the use of expenditure-switching and expenditure-changing policies to achieve macroeconomic equilibrium in an economy.
18. 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.

\*\*\*\*\*