LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

FIRST SEMESTER – NOVEMBER 2017

17/16PEC1MC05 - INTERNATIONAL ECONOMICS

Date: 14-11-2017   Dept. No.   Max. : 100 Marks
Time: 09:00-12:00

PART- A

Answer any FIVE questions in 75 words each. Each question carries FOUR marks. (5 X 4 = 20 marks)

1. What is an Offer Curve?

2. Define the concept of 'Opportunity Cost'.

3. Explain the concept of 'arbitrage'.

4. Define the term 'balance of payments'.

5. Mention the features of the gold standard.

6. The free trade price of an imported leather jacket in France is €100. If it is produced locally it requires €60 worth of imported components. France imposes a 30 per cent nominal tariff on each imported leather jacket but a 10 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
Answer any FOUR questions in 300 words each. Each question carries TEN marks.

(4 X 10 = 40 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 the various functions of the foreign exchange market.

10. Discuss the role of the IMF in solving BOP problems among member nations.

11. Explain with the help of a suitable diagram the automatic price adjustment mechanism under a flexible exchange rate system with national income remaining constant.

12. Compare foreign exchange options with foreign exchange forwards and futures.

13. Explain product cycle theory with the help of a suitable diagram.

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.

(2 X 20 = 40 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. 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. Explain 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?

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