LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

**M.A.** DEGREE EXAMINATION - **ECONOMICS**

FIRST SEMESTER – NOVEMBER 2010

# EC 1810 - INTERNATIONAL ECONOMICS

Date : 11-11-10 Dept. No. Max. : 100 Marks

Time : 1:00 - 4:00

**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. What is an exchange rate? How are cross exchange rates calculated?
3. Mention the features of a currency option.
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.**

1. State Haberler’s opportunity cost theory using an appropriate example.

1. 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.

1. 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.
2. Differentiate between import tariffs, import quotas and voluntary export restraints.
3. Briefly discuss the Heckscher-Ohlin trade model.
4. 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?
5. 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 |

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

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

1. With the help of the SWAN model, show how internal and external balance could be achieved simultaneously under a fixed exchange rate regime.

1. Explain the Stolper-Samuelson theorem and show how the Metzler paradox is an exception to this theorem.
2. Explain the Ricardian theory of international trade using suitable examples.

1. Derive equilibrium terms of trade between any two countries using offer curves.

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