# 2020

## ECONOMICS — HONOURS

### Fifth Paper

### (Group - A)

### Full Marks : 50

*The figures in the margin indicate full marks.*

*Candidates are required to give their answers in their own words as far as practicable.*

### Section - A

**1.** Answer ***any two*** questions :

(a) "In the one factor model, absolute productivity advantage in an industry is neither necessary nor sufficient to gain from foreign trade". — Justify. 10

(b) Is it ever possible for the physical definition of relative factor abundance to contradict the corresponding price definition? Explain your answer. 10

(c) How does the growth of a large country affect its terms of trade in the global market? Explain the concept of immiserizing growth in this context. 5+5

(d) What is Metzler's Paradox? Can it arise if foreign country's import demand is price elastic? 10

(e) What is Leontief Paradox? Give any two explanations of the paradox. 10

(f) Explain the non-equivalence of an import tariff and an import quota under a monopoly. 10

(g) Distinguish between 'clean float' and 'dirty float' of foreign exchange regime. 10

(h) Explain the 'Swan diagram' of internal and external balance in an economy. 10

### Section - B

Answer ***any two*** questions.

**2.** (a) Explain a situation where entire gains from trade arise due to exchange.

(b) Explain a situation where demand bias (or taste bias) causes trade patterns that follow the H–O theorem even if both the countries have identical factor endowments. 7½+7½

**3.** "When the rest of the world experiences economic growth, the effect may be bad for a nation." — Do you agree? Explain. 15

**4.** "If the factor-endowment ratios of two trading countries differ widely, free trade may not lead to factor-price equalisation". Illustrate the statement with diagram. 15

5. Which one is preferable to a country, depending on the terms of trade : an import tariff or an export subsidy? Explain with reasons. 15

6. 'Home' demand and supply curves of its importable good are given by :

$D^H = 120 - 25\ P$ and $S^H = 20 + 15\ P$

While 'Foreign' demand and supply curves of the good are given by :

$D^F = 70 - 20\ P$ and $S^F = 30 + 10\ P$

(a) Construct Home's import demand curve.

(b) Construct Foreign's export supply curve.

(c) Find the equilibrium price under free trade.

(d) Determine the prices in the two countries when a tariff of 0·6 per unit is imposed on imports of 'Home'. 4+4+3+4

7. (a) Clarify the concept of Voluntary Export Restraint (VER) with a proper example.

(b) What is effective rate of protection? 7½+7½

8. Derive the open economy fiscal multiplier $\left(\Delta Y / \Delta \overline{G}\right)$ without repercussion in a Keynesian model. (ignore asset markets) 15

9. (a) Derive the demand curve for foreign exchange of a trading country.

(b) Analyse the effects of changes in exchange rate on domestic prices and the terms of trade. 5+10

---