

M.A. (FINAL) EXAMINATION 2016 HELD IN 2017

ECONOMICS (PAPER II)

INTERNATIONAL ECONOMICS

Time: 3 hours

Max Marks: 100

Instructions

1) Attempt any FIVE questions

2) All questions carry equal marks

- Q1 (a) Suppose the US requires 3 hours of labor to produce one unit of wheat and 9 hours of labor to produce one unit of clothing why UK requires 4 hours of labor to produce one unit of wheat and one unit of clothing. Which country has an absolute advantage in wheat? Including? Why?
- (b) Now suppose that USA has 600 hours of labor and UK has 500 hours of labor. Prior to friend USA is using 330 of those labor hours to produce wheat and the remaining 270 labor hours to produce clothing. UK is using 300 of those labor hours to produce clothing and the remaining 200 labor hours to produce wheat. How much wheat and how much clothing will the US and UK be producing and consuming in the pre-trade situation?
- (c) Now suppose that USA enters into trade with UK at a barter price of 1 clothing for 2 wheat. Suppose UK exports 40 clothing in exchange of 80 wheat, what will be the UK and US consumption of wheat and clothing in trading situation? Can you conclude that trade is a positive sum game?
- Q2 What is meant by capital abundant nation and labor abundant nation? What determines the shape of the production possibility Frontier of each nation? What determines the capital labor ratio in the production of each commodity in both nations? Which of the two nations would you expect to use a higher capital labor ratio in the production of both commodities? Why?
- Q3 How does the change in PPF resulting from growth in capital differ from that resulting from growth in labor? Why do they each shift the PPF outward on both axis? What is meant by production and consumption being pro-trade anti-trade and neutral after growth?
- Q4 What is meant by the consumption, production, trade, revenue and redistribution effects of a tariff? What is meant by the protection cost or dead weight loss of a tariff? How is this measured?
- Q5 (a) Explain the similarity between international borrowing and lending, and international trade?
- (b) What is the difference between FDI and FPI?
- Q6 (a) Why do developing countries object to IMF conditionalities?
- (b) Make a case in favor of writing off of external debt of the developing countries

Q7 What is the difference between the financial account and the current account balance of payments? What is meant by the international investment position of a nation? What is its relationship to the nation's balance of payments?

Q8 Write short notes on any two of the following

i) Foreign trade multiplier FTM

ii) WTO

iii) Common market