

LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

M.A. DEGREE EXAMINATION – ECONOMICS

FIRST SEMESTER – NOVEMBER 2007

EC 1810 - INTERNATIONAL ECONOMICS

AN 22

Date : 05/11/2007

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 and commodity terms of trade.
2. What are Voluntary Export Restraints? Give suitable examples.
3. Why are the Doha Round of WTO trade negotiations taking too long for completion?
4. The current annual interest rate in India is 9% while it is 5% in the US. The spot rupee-dollar exchange rate is Rs.40: \$1. Price a one-year forward contract for the rupee-dollar exchange rate.
5. If a country exports \$25 million in computers per year and imports \$40 million in computers per year, estimate the country's intra-industry trade index for computers. Explain the significance of this index having a value of either zero or one.
6. The free trade price of an imported leather jacket in Germany is €100. If it is produced locally it requires €60 worth of imported components. Germany imposes a 30 per cent nominal tariff on each imported leather jacket but a 5 per cent nominal tariff on the imported components. Calculate the rate of effective protection provided to domestic manufacturers of leather jackets in Germany.
7. Differentiate between a Currency Board Arrangement and Dollarisation.

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 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 diagrammatically the impact of the RBI's recent intervention in the foreign exchange market to prevent the rupee from steeply appreciating against the US dollar.
10. Show how the Metzler paradox is an exception to the Stolper-Samuelson theorem.
11. Examine strategic trade policy using Boeing and Airbus industries as suitable examples.
12. Explain the features of foreign exchange options, forwards and futures.
13. Define the concept of balance of payments. How are the following transactions entered into the US balance of payments?
 - a) An Indian immigrant to the US sends \$100 to his relatives in India who exchange it for rupees at a local bank in India.
 - b) The US government ships \$200 worth of food aid to India.
14. Discuss the role of the gold standard as an automatic adjustment mechanism.

PART- C (2 X 20 = 40 marks)

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

15. Using the SWAN model, show how internal and external balance could be achieved simultaneously under a fixed exchange rate regime.
16. Describe the salient features of the European Union as a good example of economic integration.
17. Discuss the Heckscher-Ohlin model of international trade. What did Leontief discover by testing this model empirically?
18. With the help of a diagram explain the IS-LM-BP model with flexible exchange rates and perfect capital mobility.

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