

2015

ECONOMICS

(Major)

Paper : 5.4

(International Trade : Theory and Policy)

Full Marks : 60

Time : 3 hours

*The figures in the margin indicate full marks
for the questions*

1. Answer the following as directed : 1×7=7

(a) According to the theory of comparative advantage, which of the following is not a reason why countries trade?

- (i) Comparative advantage
 - (ii) Costs are higher in one country than in another
 - (iii) Prices are lower in one country than in another
 - (iv) The productivity of labour differs across countries and industries
- (Choose the correct answer)

- (b) Countries gain from trade, because
- (i) trade makes firms more competitive reducing their market power
 - (ii) all firms take advantage of cheap labour
 - (iii) world output can rise when each country specialises in what it does relatively best
 - (iv) output per worker in each firm increases

(Choose the correct answer)

(c) What is known by a situation of 'autarky'?

(d) Define the term 'Reciprocal Demand'.

(e) What is trade policy?

(f) In the Heckscher-Ohlin model, a country will import the good that uses its _____ factor intensively in its production.

(Fill in the blank)

(g) What is 'retaliation' in the terminology of protection?

2. Answer the following questions : $2 \times 4 = 8$

- (a) In case of free trade, what happens to the relative price of a country's export within the country and relative domestic price of its imports?
- (b) What is meant by technical progress in reference to a country's economic growth?
- (c) What is a capital-intensive industry?
- (d) Does the relative size of a country affect its gains from trade?

3. Answer any *three* of the following questions :

$5 \times 3 = 15$

- (a) Explain the statement :
"Free trade is superior to no trade."
- (b) Explain Leontief paradox.
- (c) Explain the concept :
Factor abundance vs Factor intensity
- (d) Explain with the help of offer curves how the gains from trade are distributed.
- (e) Explain what happens to the validity of Heckscher-Ohlin theory under factor intensity reversal.

4. Answer any *three* of the following questions : 10×3=30

- (a) Using Ricardian model, explain how both countries can gain from trade by comparing no-trade equilibrium with that of the free-trade equilibrium.
- (b) Critically discuss the factors which determine the terms of trade of a country.
- (c) Discuss trade as an engine of growth.
- (d) Discuss the effects of tariff under partial equilibrium analysis.
- (e) Review the Infant Industry Argument of protection. Excluding tariff, discuss the other protectionist devices.
- (f) Explain how the welfare of a country is ensured with the help of an optimum tariff structure.

★ ★ ★