respectively. Suppose Countries A and B sign a free trade agreement. Will this lead to trade creation or trade diversion among all the four countries?

(b) Discuss the domestic market failure argument against free trade.

02.01.2024(M)

Your Roll No...............

Sr. No. of Question Paper : **5511**   **G**

Unique Paper Code : 12277509

Name of the Paper : International Trade

Name of the Course : **B.A. (H) Economics**

Semester : V

Duration : 3 Hours   Maximum Marks : 75

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.

2. Attempt any **FIVE** questions in all.

3. **All** questions carry equal marks.

4. Use of a simple calculator is allowed.

1. Consider two countries, A and B, producing two goods: Cheese and Wine. The Unit Labour Requirements (ULR) for the two goods in the two countries are given below :

P.T.O.

Countries	ULR for Cheese	ULR for Wine
A	4	8
B	8	2

Suppose the world relative demand is given by : $(Q_c/Q_w) = (P_w/P_c)$, where relative quantity (Q_c/Q_w) demanded is the function of the relative price (P_c/P_w) of the two commodities. The total labour available in the two countries is: $L_A = 100$ and $L_B = 100$ On the basis of this information, answer the following questions :

(a) Which country has an absolute advantage in the production of cheese? (2)

(b) Sketch the relative demand and relative supply curves in a neatly labelled diagram. (5)

(c) Determine the world equilibrium relative price and relative quantity. (2)

(d) Discuss the nature of specialization at the equilibrium point. (3)

(e) Discuss gains from trade for country A. (3)

(b) Illustrate the impact of tariffs on a small open economy with the help of a diagram.

7. Answer the following questions : (9+6)

(a) "Marshall argued that there are three main reasons why a cluster of firms may be more efficient than an individual firm in isolation". Discuss.

(b) For the given costs and benefit curves of lobbying, the endogenously determined tariff rate of protection is t*. Suppose the benefits of lobbying decrease. What will happen to the optimal protection rate? Illustrate with the help of a diagram.

8. Answer the following questions : (9+6)

(a) Three countries, A, B, and C, produce jute at a unit cost of production of 160, 120, and 80, respectively. While there are no restrictions on exports, each country imposes an *ad valorem* tariff on imports of jute of 20%, 10%, and 5%,

P.T.O.

(a) Starting from no-trade equilibrium with a production possibility frontier (PPF) of a firm, illustrate the gains from off-shoring if this country has a comparative advantage in providing the services of the assembly line workers.

(b) Now suppose that advances in engineering design in the rest of the world decrease the relative salaries of software engineers. Illustrate and discuss the implications of this change on the production of laptops in the country with the help of a diagram.   (15)

6. Answer the following questions :   (10+5)

(a) Consider two imaginary countries, Cowland and Buffaloland, trading in milk. Cowland is an exporter of milk. Both countries signed a Voluntary Export Restraint (VER) to restrict the trade in milk. What are the consequences of a VER for Buffaloland? Discuss with the help of a diagram. If the milk producers in Cowland cartelise to form a monopoly, what impact would this have on their exports? Illustrate with the help of a diagram.

2. Answer the following questions :   (5+5+5)

(a) State and explain the Heckscher-Ohlin-Vanek (HOV) model.

(b) The empirical study on the US economy by Leontief contradicts the predictions of the Heckscher-Ohlin Model. Discuss.

(c) Write a short note on Rybczynski's Theorem

3. Answer the following questions :   (8+7)

(a) In a simple specific factors model, boxes are produced using L (labour) and W (wood), and fans are produced using L (labour) and M (metal). Due to some technological advancement, there is an increase in labour productivity of labour in the boxes sector. Assess the impact of this change on the relative price of boxes to fans (P_B/P_F). Assess its impact on the income distribution of specific and mobile factors.

(b) Consider an economy named Heightland, which is largely exporting agricultural goods and importing

P.T.O.

manufacturing goods. It has now started pursuing a growth strategy of focusing on the import sector. Assess its implications through a Standard Trade Model. Explain with the help of a suitable diagram.

4. Answer the following questions :   (6+9)

    (a) Is it always true that trade increases the welfare of a nation? Under what circumstances would the concentration of industries in one country leave another country worse off when trade resumes between them? Explain with the help of an example.

    (b) Consider two countries, A and B, producing televisions, having the following demand and supply conditions :

        A: DD: Qd = 1000–20P

               SS: Qs = 200+20P

        B: DD: Qd = 800–20P

               SS: Qs = 400+20P

    (i) Given this information, what will be the world equilibrium price and quantity traded?

    (ii) Discuss the pattern of trade.

    (iii) Suppose that the fixed cost of setting up a production chain of televisions by an exporting country in an importing country is \$50, and the cost of transportation is \$0.5 per television exported. Which mode will the exporting country prefer and why: exporting televisions or producing televisions in the importing country? Give reasons for your answer.

5. Consider a firm in an imaginary country producing laptops, using software engineers (E) and assembly line workers (A). Software engineers are engaged in designing laptops, while assembly line workers are engaged in assembling components. Software engineers are considered to be highly skilled personnel and earn relatively higher salaries (W_E) compared to assembly line workers (W_A).