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I SEMESTER 2019-20 MIDTERM EXAM

Course No. ECON F311 Course Title: International Economics

3/10/2019 Time: 90 Minutes Total Marks: 30

1. A firm faces two different nations characterized by
   $Q_1 = 100 - P_1$ and $Q_2 = 120 - 0.5P_2$
   The total cost function of the firm is $2000 + (Q_1 + Q_2)^2$
   a) State the condition under which the firm can practice international price discrimination. [1]
   b) Find the optimal pricing strategy and optimal profit of the firm. Diagram is not necessary. [4]
   c) Evaluate the statement: "Since the firm is charging higher price in the second market, it should increase its sales in that market." [2]

2. a) Develop a model where a multinational firm is a monopolist in the Home market but faces a perfectly competitive Foreign market. The firm's marginal cost of production is increasing with output. Assume transportation cost to be zero. Derive the profit maximizing equilibrium condition. [3]
   b) When can the Foreign country make dumping allegation against this firm? How would an economist respond to that allegation? [2]
   c) Using a properly constructed diagram, demonstrate a scenario where the firm will operate only in the Home market but not in the Foreign market. [4]

3. Two large countries, USA and China are initially operating under free trade. China exports firecrackers to the USA. Now consider a Voluntary Export Restraint agreement between these 2 countries.
   a) What would be the price of firecrackers in the USA and China due to this trade policy? Explain using graphs and economic logic. [3]
   b) In general, a "Carrot and Stick" policy is required such that China would voluntarily agree to restrict its export.
      i) Explain the "Carrot" for China in this context. [3]
      ii) Explain a policy that would act as a "Stick" for China. [3]

4. Consider two countries: Home and Foreign, two goods: Food and Cloth, and two factors of production: Labor and Capital. Assume 1) Home is Labor abundant and Foreign is abundant in Capital according to price definition. Also assume 2) Cloth (Capital intensive) and Food (Labor intensive) are produced using same Constant Returns to Scale technology in both the countries.

   Explain the result of Stolper-Samuelson analysis when these two countries move from autarky to free trade. You are expected to provide economic logic and graphical explanation. Mathematical derivations are not required. [5]