ID. No.	Name:

BIRLA INSTITUTE OF TECHNOLOGY & SCIENCE, PILANI

FIRST SEMESTER 2022-2023

Comprehensive Examination (Regular)

(Closed Book)

Course No.	: **ECON F311**	Max. Marks	**: 80**
Course Title	: **International Economics**	Weightage	**: 40%**
Date	: **30/12/2022(FN)**	Duration	**: 3 hours**

PART – A (Multiple choice questions)

Note:

There are 30 multiple choice questions.
Encircle the Correct option as (A / B / C / D / E)
Each correct answer carries 1 mark.
Each two wrong answer carries a negative of 1 mark.

No. of Correct answers		No. of Wrong answers		Total marks	

Q1. To achieve external balance and correct a recession, a nation will always have to use tight monetary policy if at the full employment level of national income the nation's
BP curve is:
A) above the LM curve
B) below the LM curve
C) steeper than the LM curve
D) above the IS curve

Q2. If the BP curve is above the point of intersection of the IS and LM curves, the nation will:
A) have a balance of payments deficit at that level of income
B) have a balance of payments surplus at that level of income
C) be in recession
D) face inflation

Q3. To correct unemployment from a condition of external balance, a nation will usually have to use:
A) expansionary fiscal policy only
B) easy monetary policy only
C) expansionary fiscal policy and easy monetary policy
D) expansionary fiscal policy and tight monetary policy

Q4. Points below internal balance line in the Swan diagram indicate:
A) a balance of payments deficit
B) a balance of payments surplus
C) unemployment
D) inflation

Q5. A nation can eliminate domestic unemployment and a balance of payments deficit while maintaining a fixed exchange rate through
A) expansionary fiscal policy and expansionary monetary policy
B) expansionary fiscal policy and contractionary monetary policy
C) contractionary fiscal policy and expansionary monetary policy
D) contractionary fiscal policy and contractionary monetary policy

Q6. To correct a balance of payments surplus and inflation a nation requires a:
A) devaluation and expansionary fiscal and monetary policies
B) devaluation and contractionary fiscal and monetary policies

- **C)** devaluation and either expansionary or contractionary fiscal and monetary policies
- **D)** revaluation and either expansionary or contractionary fiscal and monetary policies

Q7. If the residents of a country receive income from their foreign investments, it is counted as a
- **A)** credit in the current account.
- **B)** debit in the current account.
- **C)** credit in the capital account.
- **D)** debit in the capital account.
- **E)** debit in either the capital or current account, depending on the type of investment income.

Q8. International labor mobility
- **A)** leads to wage convergence by raising wages in destination country and lowering in source country.
- **B)** is in accordance with the specific factors model.
- **C)** is in accordance with the Heckscher-Ohlin factor proportions model.
- **D)** leads to wage convergence by raising wages in source and lowering them in destination country.
- **E)** is in accordance with scale economy model.

Q9. If initially wages are higher in Home than in Foreign, then a movement of workers from Foreign to Home will
- **A)** lower the marginal product of labor in Foreign.
- **B)** raise total product in Foreign.
- **C)** raise the income of land owners in Foreign.
- **D)** raise the income of land owners in Home.
- **E)** None of the above.

Q10. The foreign trade multiplier of nation 1 is largest:
- **A)** when there are no foreign repercussions
- **B)** with foreign repercussions for an autonomous increase in nation 1's X that replace domestic
- **C)** production in nation 2
- **D)** with foreign repercussions for an autonomous increase in I in nation 1
- **E)** with foreign repercussions for an autonomous increase in I in nation 2

Q11. An autonomous increase in S from a condition of equilibrium in national income and in the trade balance results in the nation's income:
- **A)** rising and its trade balance turning into surplus
- **B)** falling and its trade balance turning into surplus
- **C)** falling and its trade balance turning into deficit
- **D)** rising and its trade balance turning into deficit

Q12. The equilibrium level of national income in an open economy is given by:
- **A)** $I + X = S + M$
- **B)** $X - M = S - I$
- **C)** $I + (X-M) = S$
- **D)** all of the above

Q13. Should the home country be "large" relative to the world, its imposition of a tariff on imports would lead to an increase in domestic welfare if the terms-of-trade effect <u>exceeds</u> the sum of the:
- **A)** Revenue effect plus redistribution effect
- **B)** Protective effect plus revenue effect
- **C)** Consumption effect plus redistribution effect
- **D)** Protective effect plus consumption effect

Q14. A depreciation of a nation's currency shifts:
- **A)** down its supply curve of imports in terms of the foreign currency
- **B)** up its demand curve of imports in terms of the foreign currency
- **C)** down its demand curve of imports in terms of the foreign currency
- **D)** down its demand curve of imports in terms of the domestic currency

Q15. The more elastic is a nation's demand and supply of foreign exchange the:
- **A)** larger is the devaluation or depreciation required to correct a deficit of a given size in

the nation's balance of payments
- **B)** smaller is the devaluation or depreciation required to correct a deficit of a given size in the nation's balance of payments
- **C)** less feasible is a flexible exchange rate system
- **D)** less feasible is a devaluation as a policy to correct a deficit in the nation's balance of payments

Q16. Which of the following is a debit?
- **A)** The export of goods
- **B)** The export of services
- **C)** Unilateral transfers given to foreigners
- **D)** Capital inflows

Q17. The receipt of an interest payment on a loan made by a U.S. commercial bank to a foreign resident is entered in the U.S. balance of payments as a:
- **A)** credit in the financial account
- **B)** credit in the current account
- **C)** credit in official reserves
- **D)** debit in unilateral transfers

Q18. Which of the following statements is correct?
- **A)** In a customs union, member nations apply a uniform external tariff
- **B)** in a free-trade area, member nations harmonize their monetary and fiscal policies
- **C)** within a customs union there is unrestricted factor movement
- **D)** a customs union is a higher form of economic integration than a common market

Q19. A trade-diverting customs union:
- **A)** increases trade among union members and with nonmember nations
- **B)** reduces trade among union members and with nonmember nations
- **C)** increases trade among members but reduces trade with non-members
- **D)** reduces trade among union members but increases it with nonmembers

Q20. An increase in the demand of the imported commodity subject to a given import quota:
- **A)** reduces the domestic quantity demanded of the commodity
- **B)** increases the domestic production of the commodity
- **C)** reduces the domestic price of the commodity
- **D)** reduces the producers' surplus

Q21. The imposition of an import tariff by a nation can be represented by a rotation of the:
- **A)** nation's offer curve away from the axis measuring the commodity of its comparative advantage
- **B)** the nation's offer curve toward the axis measuring the commodity of its comparative advantage
- **C)** the other nation's offer curve toward the axis measuring the commodity of its comparative advantage
- **D)** the other nation's offer curve away from the axis measuring the commodity of its comparative advantage

Q22. The imposition of an import tariff by a large nation:
- **A)** increases the nation's terms of trade
- **B)** reduces the volume of trade
- **C)** may increase or reduce the nation's welfare
- **D)** all of the above

Q23. Doubling only the amount of L available under constant returns to scale:
- **A)** less than doubles the output of the L-intensive commodity
- **B)** more than doubles the output of the L-intensive commodity
- **C)** doubles the output of the K-intensive commodity
- **D)** leaves the output of the K-intensive commodity unchanged

Q24. An increase in tastes of the import commodity of Nation A and export in Nation B:
- **A)** will reduce the terms of trade of Nation A
- **B)** will increase the terms of trade of Nation A
- **C)** will reduce the terms of trade of Nation B
- **D)** any of the above

Q25. The Rybczynski theorem postulates that doubling L at constant relative commodity prices:
- **A)** doubles the output of the L-intensive commodity
- **B)** reduces the output of the K-intensive commodity
- **C)** increases the output of both commodities
- **D)** any of the above

Q26. If the nation is on the YY curve above point F(the point of internal and external balance), it can reach point F by
- **A)** devaluation and expansionary fiscal policy
- **B)** revaluation and contractionary fiscal policy
- **C)** devaluation and contractionary fiscal policy
- **D)** revaluation and expansionary fiscal policy

Q27. Which of the following statement is incorrect?
- **A)** Both quota and tariff reduce the level of import to protect the domestic industry
- **B)** Tariff is Quota equivalent and Quota is tariff equivalent
- **C)** A tariff acts directly on price and indirectly on quantity where as Quota act directly on quantity and indirectly on price
- **D)** Tariff and Quotas raises the import price and brings an equal amount of revenue to the Government.

Q28. Under the flexible exchange rate system (and stable foreign exchange rate market), a deficit in a nation's balance of payments is automatically corrected by
- **A)** A depreciation of its currency
- **B)** An appreciation of its currency
- **C)** Domestic inflation
- **D)** A rise in the national income

Q29. The *Metzler Paradox*
- **A.** Could theoretically happen when a small country levies a tariff
- **B.** Refers to a situation when an Optimal Tariff hurts a country's economic welfare
- **C.** Refers to a situation when the imposition of a tariff lowers domestic prices.
- **D.** Refers to a situation when the imposition of a tariff helps foreign exporters
- **E.** None of the above

Q30. Should Canada impose a tariff on imports, one would expect Canada's:
- **A)** Terms of trade to improve and volume of trade to decrease
- **B)** Terms of trade to worsen and volume of trade to decrease
- **C)** Terms of trade to improve and volume of trade to increase
- **D)** Terms of trade to worsen and volume of trade to increase

*******END of PART - A*******

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PART B - 50 Marks

Q1. Given the following information, calculate (a) the cost to consumers, (b) the benefit to producers, (c) the change in government revenue, and (d) the total protection costs of a proposed 20 percent tariff on personal computers. **[5M]**

price of computers (free trade)	\$2,000
domestic production (free trade)	100
domestic production (after tariff)	120
domestic consumption (free trade)	150
domestic consumption (after tariff)	140

Q2. Consider the following data detailing the situation for Guatland before and after it forms a FTA with Mexland: **[5M]**

Pre-FTA

Imports from Eurland: 100 million units
Imports from Mexland: 0 units

Post-FTA

Imports from Eurland: 0
Imports from Mexland: 270 million units

a) How much trade (in quantity) was diverted by this agreement? How much trade (in quantity) was created?

b) Assume Eurland charges \$5 for this product and Mexland charges \$6. Suppose that Guatland's original tariff was \$2 per unit. Calculate the net welfare gain or loss to Guatland from forming this FTA.

Q3. Suppose that the domestic demand and supply for shoes in a small open economy are given by

$$\mathbf{P = 100 - 2Q \quad \text{and} \quad P = 4 + Q}$$

where P denotes price and Q denotes quantity. **[8M]**

a) What are the autarky price of shoes and quantity produced?

b) Suppose that the world price is \$50. What will be the levels of production and consumption under free trade? How much will it want to trade?

c) Suppose that the government provides a subsidy of \$5 per unit of the quantity traded of this product. What will happen to production, consumption, and trade levels of this product?

d) What will be the change in consumer surplus, change in producer surplus, government expenditure and dead weight loss of this policy?

Q4. Identify whether each of the following is a debit or a credit in the country of Fredonia's BoP and indicate where the item would be classified. (Write the item in the answer sheet) and then calculate the following: **[8M]**

(i) the deficit or surplus in current account
(ii) the deficit or surplus in capital account
(iii) the value of accommodating transaction in the credit or debit side

a) Freedonian firms export \$250 million worth of goods.
b) Freedonian citizen's purchase \$50 million worth of tickets on US Airways flights.
c) A Freedonian firm purchases a shoe factory in Mexico for \$30 million.
d) Freedonia receives \$5 million in foreign aid from the United States.
e) Freedonian citizens deposit \$15 million in Citibank account in New York.

f) Freedonia imports \$220 million worth of goods.
g) Freedonian firms borrow \$45 million by issuing bonds in the United States.
h) U.S. firms earn \$5 million in profits from operations in Freedonia.

P.T.O.

Q5. Suppose the India's import market is characterized by the following supply and demand curves, where supply represents the quantity of imports supplied to India by US whereas the demand curve represent the quantity of imports demanded by India from US. **[8M]**

$Q = 120 - 2P$ and $Q = 3P - 30$

where the P represent price of imports in terms of rupees.

a) With an exchange rate of Re1/ \$1, how many units of imports are supplied to / demanded by Indians? What is the total rupee value of imports?

b) If rupee depreciates by 10%, what is the new quantity of imports by India? What is the new price of imports? What is the total rupee value of imports?

c) Graphically represent the above situation.

Q6. Given; (1) an open economy with a fixed exchange rate system and constant internal prices and interest rates, (2) $S = I_d = 100$ and $X = M = 300$ at $Y_e = 1{,}000$, which involves wide spread unemployment and (3) MPC = 0.75 and MPM = 0.25 where I_d and X are independent of Y and exogenously determined. If now X increases autonomously by 100 units, find the following; **[8M]**

a) The new equilibrium level of income
b) Is the adjustment in BoP complete in part (a)? (If not indicate the amount of surplus or deficit)
c) What happens to BoP if I_d increases autonomously by 200? (indicate the amount of surplus or deficit)
d) What if there is instead an autonomous decrease in I_d by 100? (indicate the amount of surplus or deficit)

Q7. Suppose the nation's import function is given as $M = 100 + 0.20Y$. Apart from that the nation has following information relating to the goods as well as money market and balance of payment equilibrium. Its LM curve is given as $r = 0.04Y - 20$, it IS curve is given as $r = 19 - 0.02Y$ and the BP curve is given by $r = 0.2Y - 140$. Further the economy is experiencing fixed exchange rate system. **[8M]**

a) Determine the internal equilibrium level of output and the corresponding rate of interest.
b) Draw all the three curves in a single diagram with appropriate labeling.
c) Determine the size of the deficit or surplus in its BoP that the nation faces at equilibrium level of output assuming that there is no foreign repercussion.
d) If the interest rate prevailing at the equilibrium level of output is doubled, then the nation attains full employment level of output. Calculate the full employment level of output?
e) From (d) mention and show graphically how the nation can reach full employment with both internal as well as external balance by using appropriate mix of expenditure -changing policies

*****END*****