

<b>Name:</b>	<b>ID. No.</b>
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**BIRLA INSTITUTE OF TECHNOLOGY & SCIENCE, PILANI**  
**FIRST SEMESTER 2023-2024**  
**COMPREHENSIVE EXAMINATION (REGULAR)**  
**PART – A (Closed Book)**

Course No.	: ECON F311	Max. Marks	: 30
Course Title	: International Economics	Duration	: 1 hour (suggested)
Date	: 15 / 12 / 2023 (FN)	Weightage	: 15 %

**Instructions:**

- Answer all the questions.
- Encircle the most suitable Answer.

MCQs (15x1 = 15M)	Fill in the blanks (5x1=5M)	SAQ (5x2 = 10M)	Total Marks (30M)

**Q1.** If Hong Kong and Taiwan have identical production possibilities curves that are subject to increasing opportunity costs:

- A) Trade would depend on differences in demand conditions
- B) Trade would depend on economies of large-scale production
- C) Trade would depend on the use of different currencies
- D) There would be no basis for gainful trade

**Q2.** If the international terms of trade settle at a level that is between each country's opportunity cost

- A) There is no basis for gainful trade for either country
- B) Both countries gain from trade
- C) Only one country gains from trade
- D) Depends on the shape of PPF

**Q3.** The trading-triangle concept is used to indicate a nation's:

- A) Exports, marginal rate of transformation, terms of trade
- B) Imports, terms of trade, marginal rate of transformation
- C) Marginal rate of transformation, imports, exports
- D) Terms of trade, exports, imports

**Q4.** According to the Marshall-Lerner condition, if a country's currency depreciates its trade balance will worsen if

- A) elasticity of demand for exports = 0.9; elasticity of demand for imports = 0.4
- B) elasticity of demand for exports = 0.7; elasticity of demand for imports = 0.3
- C) elasticity of demand for exports = 0.5; elasticity of demand for imports = 0.7
- D) elasticity of demand for exports = 0.3; elasticity of demand for imports = 0.6

**Q5.** When several countries jointly impose common external tariffs, eliminate tariffs on each other, and eliminate barriers to the movement of labor and capital among themselves, they have formed a/an

- A) free trade area
- B) customs union
- C) common market
- D) economic union

- Q6.** If no imported inputs (hard-disk drive) go into the domestic production of a final product (desktop computer), then the
- A) nominal tariff rate on the final product equals the effective tariff rate on the product
  - B) nominal tariff rate on the final product is greater than the effective tariff rate on the product
  - C) nominal tariff rate on the final product is less than the effective tariff rate on the final product
  - D) none of the above
- Q7.** A product will be traded only if the pre-trade price difference between the two countries
- A) is less than the cost of transporting it between them
  - B) is greater than the cost of transporting it between them
  - C) equals the cost of transporting it between them
  - D) more information is needed to answer this question
- Q8.** Intra-industry trade theory
- A) explains why the United States might export autos and import clothing
  - B) explains why the United States might export and import differentiated versions of the same product, such as different types of autos
  - C) assumes that transport costs are very low or do not exist
  - D) ignores seasonal considerations for agricultural goods
- Q9.** The imposition of an import tariff by a nation can be represented by a rotation of the
- A) The nation's offer curve toward the axis measuring the commodity of its comparative advantage.
  - B) The other nation's offer curve toward the axis measuring the commodity of its comparative advantage
  - C) The other nation's offer curve away from the axis measuring the commodity of its comparative advantage
  - D) The nation's offer curve away from the axis measuring the commodity of its comparative advantage
- Q10.** If the BP curve is above the point of intersection of the IS and LM curves, the nation will:
- A) Have a Balance of Payment deficit at that level of income
  - B) Have a Balance of Payment surplus at that level of income
  - C) Be in recession
  - D) Face inflation
- Q11.** When a government allows raw materials and other intermediate products to enter a country duty free, its tariff policy generally results in a:
- A) Effective tariff rate less than the nominal tariff rate
  - B) Nominal tariff rate less than the effective tariff rate
  - C) Rise in both nominal and effective tariff rates
  - D) Fall in both nominal and effective tariff rates
- Q12.** The share of transport costs will fall less heavily on the nation:
- A) With the more elastic demand and supply of the traded commodity
  - B) With the less elastic demand and supply of the traded commodity
  - C) Exporting agricultural products
  - D) With the largest domestic market
- Q13.** Suppose that domestic demand for a product is more inelastic than demand in the foreign country. A seller with market power would set a price in the foreign market that is \_\_\_\_\_ than the domestic price; this is an example of \_\_\_\_\_.
- A) higher, predatory dumping
  - B) lower, predatory dumping
  - C) higher, international price discrimination
  - D) lower, international price discrimination

- Q14.** Two developed nations are most likely to engage in
- A) inter-industry trade based on economies of scale
  - B) intra-industry trade based on economies of scale
  - C) inter-industry trade based on comparative advantage
  - D) intra-industry trade based on comparative advantage

- Q15.** Which of the following situations would violate the assumptions of the H-O model?
- A) Doubling all inputs doubled the production of all outputs
  - B) Nation 1's trade is balanced
  - C) Nation 1 has technology that is different from Nation 2
  - D) Nation 2 does not completely specialize in either good

**Fill in the Blanks [5x1 = 5M]**

- Q1.** \_\_\_\_\_ is needed to “balance” the balance of payments statement.
- Q2.** An increase in tastes for the import commodity in both nations will lead to \_\_\_\_\_ the volume of trade.
- Q3.** Suppose that the domestic government allows a specific number of goods to be imported each year, but it does not specify from where the product is shipped or who is permitted to import. Such a trade barrier is known as \_\_\_\_\_ quota.
- Q4.** \_\_\_\_\_ dumping occurs when a firm dispose on foreign markets a temporary increase in inventories caused by unforeseen changes in supply and demand conditions in the home economy.
- Q5.** A nation's gains from trade can be broken down into \_\_\_\_\_ and \_\_\_\_\_.

**Short answer type question: [5x2 = 10M]**

- Q1.** The summary of a balance of payment account of Stonia for 2020 (in million \$) is given in the table below. Calculate the following: **(A)** Balance of payment **(B)** What will be the net value of accommodating transaction and what measures need to be taken in order to correct the situation of BOP?

Net long term capital	10
Import of goods	5250
Net short term capital	30
Net unilateral transfer	120
Balance of trade in services	200
Export of goods	5850

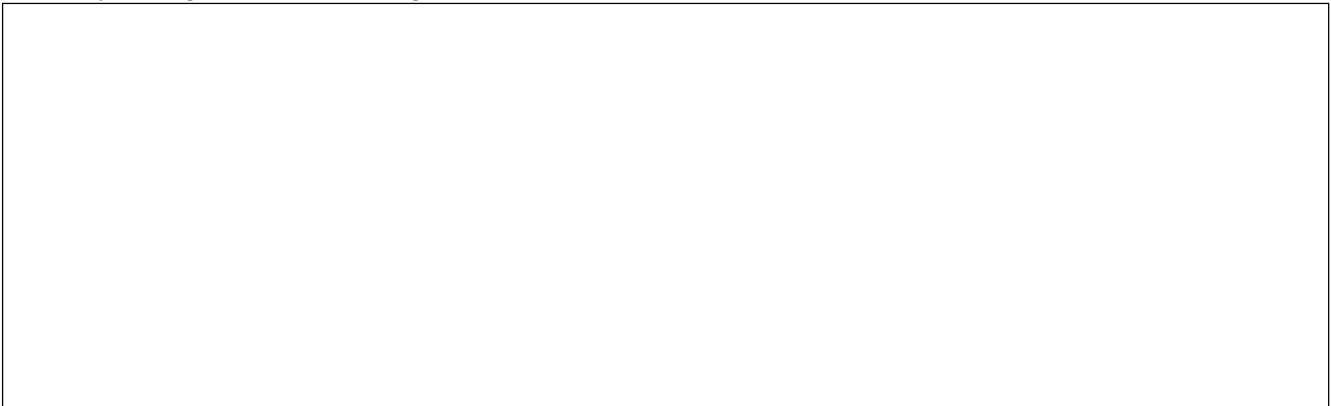
**Q2.** What kind of fiscal and monetary policies should be adopted to achieve the level of full employment in the case of perfect capital mobility and fixed exchange rate? Briefly explain with the help of a suitable graph.



**Q3.** Briefly explain the relation between the Stolper Samuelson theorem and Metzler's Paradox.



**Q4.** Briefly explain the impact of **expansionary fiscal policy and tight monetary policy** on trade balance of a nation by stating the channel through which it affects.



**Q5.** What is meant by optimum tariff? Briefly explain the concept of optimum tariff for small nation giving substantial explanation for it.

