RAMAKRISHNA MISSION VIDYAMANDIRA
(Residential Autonomous College affiliated to University of Calcutta)

B.A./B.Sc. SIXTH SEMESTER EXAMINATION, MAY 2017
THIRD YEAR [BATCH 2014-17]
Date : 02/05/2017   **ECONOMICS (Honours)**
Time : 11 am – 3 pm   **Paper : VIII**   Full Marks : 100

[Use a separate Answer Book for each group]

Group – A

1. Answer **any four** questions : [4×3]
   a) What do you mean by import-substitution strategy?
   b) Mention two important features of the dependency theory.
   c) Mention the major functions of the W.T.O.
   d) Define decentralized planning.
   e) Mention some of the problems associated with foreign portfolio investment.
   f) What is Mercantilism?
   g) Mention two causes of industrial revolution in Britain.
   h) Explain the process of gradual transition from GATT to WTO.

2. Answer **any one** question : [1×8]
   a) Discuss the Rostow's stages of Growth Theory.
   b) What are the implications of gender development in the context of economic development? Briefly explain the meaning of 'missing women mystery' in this context.

3. Answer **any two** questions : [2×15]
   a) What are the major arguments in favour of MNCs in the context of developing countries? Discuss major limitations of FDI and MNC operation for developing countries. [8+7]
   b) Do you support the view that underdeveloped countries benefit largely from international trade? Discuss the question in light of the analysis of the Prebish-Singer thesis. [15]
   c) What do you mean by plan failure? What are the major reasons for plan failure? Mention some of the limitations of market in LDC. [2+8+5]
   d) Mention the major functions of the World Bank. Critically discuss its role in the context of developing countries like India. [5+10]

Group – B

4. Answer **any three** questions : [3×4]
   a) Assuming convex preferences, demonstrate graphically and explain why offer curves are assumed to rise with respect to the import axis and then explain why offer curves eventually bend back towards the import axis.
   b) Suppose that at current factor prices clothe is produced using 20 hours of labour for each acre of land and food is produced using only 5 hours of labour per acre of land. Suppose also that the country's resources are 1200 hours of labour and 120 acres of land. Use a diagram to determine the allocation of its resources and output at full employment. Sketch the relative supply curve of this economy.

c) Suppose that the labour supply increases first to 1600, then 2000, then 2400 hours in the previous setup of (b). Use a separate diagram to show what happens to the allocation of resources and output at full employment level. Explain intuitively.

d) In a 2×2×1 setup, using standard assumptions and specifications show the gains from trade. What are the problems with this model.

e) Compare and contrast the assumptions underlying the Ricardian and Heckscher-Ohlin Model of international trade.

f) Explain the incidence of international transfer of income made by a foreign country to home country on home's term of trade when home's marginal propensity spend on its importables is higher relative to its exportables. Use a diagram to substantiate your arguments.
   What were the critical stand points of the two leading economists of their time, Bertil Ohlin and John Maynard Keynes (JMK), on the implications of this international transfer of income in the context of war reparation packages, named as "Carthaginian Peace", demanded of Germany after World War II? [2+2]

5. Answer **any one** question : [1×8]

   a) What is the Liontief Paradox? Give one explanation to explain the Paradox. [3+5]

   b) What is Metzler's Paradox? Explain it graphically. What are the conditions to be fulfilled to actually have Metzler's Paradox. Why this has quite dramatically reverse implication of the Stolper-Samuelson theorem, specifically in the context of providing protection to the workers of an import competing sector of a nation? What is the qualitative similarity of Metzler's Paradox with the incidence of Immiserizing Growth? [2+2+2+2]

6. Answer **any two** questions : [2×15]

   a) Suppose an economy produces leather bags (B) and corn (C) using labour (L) and land (T). The production functions of those goods are :

   $$X_B = L_B^{0.5} T_B^{0.5} \; ; \; X_C = L_C^{0.4} T_C^{0.6}$$

   i) If $P_B = Rs100$ and $P_C = Rs80$, find out the rates of return to the labour and land.

   ii) If P_B declines to Rs. 80, how do the rates of return will change for labour and land?

   iii) Suppose the economy is endowed with 1000 workers and 1200 acres of land. If the world price of the two goods are as in (i) how many lather bags and how much of corn will the economy produce?

   Spain is a small open economy that trades commodity X and Y in the world market at the fixed terms of trade 1X : 2Y. Spain is endowed with 37200 units of labour and 18000 unit of capital. At the current equilibrium the optimal production coefficients are as follows :

	Labour	Capital
X	4	3
Y	5	1

   Assume that Spain also consume commodities at a fixed proportion 1X : 1Y at all conceivable prices.

   iv) Determine Spain's labour and Capital constraints.

   v) Determine Spain's output, consumption and finally export and import of X and Y. [3+2+3+2+5]

   b) Suppose an economy produces two goods A&B using labour (L) and capital (K). A is produced using 1L & 1K and B is produced using 1L & 2K. The economy has total of 40L and 30K endowments to go about.

i) Draw the production set. Is it possible to employ both capital and labour fully?

ii) What level of output will generate maximum employment level? What is the level of maximum employment?

Consider further the following employment condition in USA and India :

$L_i = 5A+2B$; $K_i = 2A+4B$; i = USA, India

$L_{USA} = 1000$, $L_{India} = 800$, $K_{USA} = 800$ & $K_{India} = 400$; Consumers in both the countries have identical tastes and consume the two goods at fixed ratio : $\dfrac{B}{A} = \dfrac{1}{2}$.

iii) Rank the countries according to the factor endowments.

iv) Rank commodities according to factor intensities.

v) Do you think both labour and capital will be fully employed at the pre trade situation? What are the pre trade price ratios in the two countries?

vi) When trade opens up between USA and India, what will be the pattern of trade? Is this consistent with the factor abundance of the countries?

vii) Suppose instead of consuming at fixed ratio, tastes are given by U = A.B. What are the pre trade price ratios in the two countries and what will be the pattern of trade?   [2+2+1·5+1·5+2+2+4]

c) i) Explain the alternative definitions of relative factor abundance.

ii) What is factor intensity reversal?

iii) What is Effective Rate of Protection? When does Effective Rate of Protection and Nominal Rate of Protection be the same?

iv) What is Rybezynski Theorem? Intuitively explain the output magnification effect in this context.   [3+3+(2+2)+(3+2)]

d) i) What are the political economy arguments in favour of free trade?

ii) What are the political economy arguments against free trade? How strong these arguments are?

iii) How do the preferences of individuals get added up to produce the trade policy we actually see? Can you argue in favour of this statement with the model of Electoral Competition?

iv) How does collective action help shape a nation's trade policy?

v) Explain the case of international negotiation and trade policy adaption to improve social welfare of trading nations? Can you demonstrate the incidence of race to the bottom is actually a outcome of prisoner's dilemma?   [3+3+3+3+3]

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