

Indian Institute of Technology, Kharagpur
Department of Humanities & Social Sciences

End-Spring Semester Examination, 2016

Sub. Name: International Trade

Sub. No. HS40078

Full Marks: 50

Time: 3 Hrs.

Instruction. Question Number 1 and 2 are compulsory. Answer any two from the rest.

1. Argue whether the following statements are true, false or uncertain giving appropriate reason(s) in favour of your answer: 5×3 = 15
 - (a) Comparative advantage is the basis of trade.
 - (b) Devaluation leads to improvement in BOP.
 - (c) Incomplete specialization is required for factor price equalisation.

2. Write short notes on the following concepts (any three): 5×3 = 15
 - (a) Quota versus VER;
 - (b) TRIPS;
 - (c) Reciprocal dumping;
 - (d) Fixed versus flexible exchange rate regime.

3. (a) In a multi-country, multi-commodity, multi factor of production framework define the factor intensity condition. Also restate the factor abundance criterion following the Heckscher-Ohlin-Vanek model. Derive the factor content equation.
(b) What are the different modes of supplying services as categorized by GATS? Illustrate with examples. 7+3

4. Discuss how trade in differentiated product can be generated between two similar countries following Krugman (1979) and the sources of gains from such trade. Point out the major criticism of the model. 10

P.T.O.

5. As part of its agreement to satisfy conditions needed to join the WTO, China will need to lower tariffs and quotas on petrochemicals such as polyethylene. Suppose that the world price for polyethylene is \$30,000 per 100,000 liters, and foreign manufacturers produce enough to satisfy Chinese demand at the world price. The Chinese supply and demand schedules for the product are presented in the following Table:

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<i>Price (thousands of dollars)</i>	<i>Chinese supply (thousands of liters)</i>	<i>Chinese demand (thousands of liters)</i>
30	30,000	60,000
40	40,000	50,000
50	50,000	40,000
60	60,000	30,000
70	70,000	20,000
80	80,000	10,000

- What are the Chinese demand and supply equations for this example?
- What are the equilibrium price and output if all foreign producers are restricted from exporting to China?
- If foreign manufacturers are allowed to freely compete in China, what are the new equilibrium price and output? How much is supplied by Chinese manufacturers?
- What are the pre-WTO entry equilibrium price and output if China imposes a tariff of \$10,000 per million litres on imports?
- What amount of Chinese government revenue is generated by imposing the \$10,000 tariff?
- If the Chinese government imposed a pre-WTO import quota of 10 million litres instead of a \$10,000 tariff, what is the loss of consumer surplus in China when compared to the results of part *c*?
- Does imposing this quota generate any government revenue for China?