

JOINT FACILITY FOR ELECTIVES
1994

AERC MA COLLABORATIVE

INTERNATIONAL ECONOMICS

First Segment Exam

Wednesday 17, August 1994

Instructions: Answer ONE question from Section I and any TWO questions from Section II

Section I

1. With reference to the HOS model of trade, answer the following:
 - (a) discuss the meaning of "comparative advantage" in trade. (10%)
 - (b) comment on the underlying assumptions of the HOS model. (10%)
 - (c) Show how the 2 x 2 x 2 HOS model of trade can be extended to many goods and factors. (20%)

2. Consider a two-good economy which is a larger buyer in the world market for its importable good, and
 - (a) discuss the optimal tariff or terms of trade argument for protection, using alternative approaches. (20%)
 - (b) what happens if each country chooses its tariff to maximize its welfare, taking the tariff of the other country as given? explain (10%)
 - (c) What are the implications of imposing optimal export taxes for a developing country? (10%)

Section II

3. The Stolper - Samuelson theorem states: "A rise in the relative price of a commodity leads to a rise in the real return to the factor used intensively in producing that commodity and to a fall in the real return to the other factor".
With reference to the above statement,



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- (a) discuss the theorem (10%)
 - (b) derive algebraically the theorem and establish the magnification effect (10%)
 - (c) explain why the theorem may not hold in the context of a specific factors model (10%)
4. Consider the case for a strategic trade policy in a duopoly setting, and discuss its limitations. (30%)
5. (a) Distinguish between nominal and effective protection, and derive a measure of effective protection incorporating all forms of interventions. (20%)
- (b) State the possible uses of the concept of effective protection. (10%)
6. Provide a theoretical and empirical assessments of the view that "the long-term terms of trade will tend to move adversely against primary producing countries". (30%)
7. (a) What is meant by trade liberalization? (10%)
- (b) Discuss the timing, sequencing and the possible gains from trade liberalization. (20%)