



SPRING MID SEMESTER EXAMINATION-2025

School of Computer Engineering
Kalinga Institute of Industrial Technology, Deemed to be University
Subject Name: **International Economic Cooperation**
[HS20122]

Time: 1 1/2 Hours

Full Mark: 20

Answer Any four questions including question No.1 which is compulsory.

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable and all parts of a question should be answered at one place only.

1. Answer all the questions.

[1 Mark X 5]

a) What is Mercantilism?

Mercantilism is an economic theory that emphasizes maximizing exports and minimizing imports to accumulate wealth and strengthen national power.

b) What is the Terms of trade?

Terms of trade (TOT) refer to the ratio of export prices to import prices. It indicates how many units of imports a country can get for a unit of exports.

c) Define the Balance of payment.

The Balance of Payments (BOP) is a systematic record of a country's economic transactions with the rest of the world over a specific period. It includes the Current Account, Capital Account, and Financial Account.

d) List out two forms of protection.

Tariffs – Taxes on imported goods to protect domestic industries.
Quotas – Limits on the quantity of goods that can be imported.

e) Who gave the Reciprocal Demand Theory?

John Stuart Mill introduced the Reciprocal Demand Theory, which explains how the relative demand for goods between two countries determines the terms of trade.

2. Explain Heckscher-Ohlin theory with a diagram. Country X has a capital-to-labor ratio of **4:1**, while Country Y has a capital-to-labor ratio of **1:3**. Given that steel production is capital-intensive and textile production is labor-intensive, according to the Heckscher-Ohlin theory, which country will export steel and which will export textiles?

[5

Marks]



Students are free to answer in their own words as per class lecture.

The Heckscher-Ohlin (H-O) Theory states that countries will export goods that use their abundant resources and import goods that use their scarce resources. Diagram: To be drawn by students.

Country X has a higher capital-to-labor ratio (4:1), meaning it is capital-abundant.

Country Y has a lower capital-to-labor ratio (1:3), meaning it is labor-abundant.

Since steel production is capital-intensive, Country X will export steel.

Since textile production is labor-intensive, Country Y will export textiles.

This aligns with the Heckscher-Ohlin theory, which states that countries export goods that use their abundant factors of production.

3. A country has the following balance of payments (BOP) data (in million ₹): [5 Marks]

Exports of goods: 500	Net transfers: 30
Imports of goods: 600	Foreign direct investment (FDI) inflows: 250
Exports of services: 200	FDI outflows: 100
Imports of services: 150	Portfolio investment inflows: 150
Net income from abroad: - 50	Portfolio investment outflows: 120

Calculate:

1. Current Account Balance (CAB)
2. Capital Account Balance (KAB)
3. Overall Balance of Payments (BOP)

1. Current Account Balance (CAB):

$CAB = (\text{Exports of goods} - \text{Imports of goods}) + (\text{Exports of services} - \text{Imports of services}) + \text{Net income from abroad} + \text{Net transfers}$

$$CAB = (500 - 600) + (200 - 150) + (-50) + 30$$

$$CAB = -100 + 50 - 50 + 30$$

$$CAB = -70 \text{ million ₹ (Deficit)}$$

2. Capital Account Balance (KAB):

$KAB = (\text{FDI inflows} - \text{FDI outflows}) + (\text{Portfolio investment inflows} - \text{Portfolio investment outflows})$

$$KAB = (250 - 100) + (150 - 120)$$

$$KAB = 150 + 30$$

$$KAB = 180 \text{ million ₹ (Surplus)}$$

3. Overall Balance of Payments (BOP):

$$BOP = CAB + KAB$$

$$BOP = -70 + 180$$

$$BOP = 110 \text{ million ₹ surplus}$$

4. India has imposed high tariffs on imported American dairy and agricultural products, while the USA has placed restrictions on Indian steel and aluminum exports. These trade barriers have led to tensions between the two nations. Give five points for and



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five points against the imposition of trade restrictions.

[5 Marks]

Points in Favor of Trade Restrictions

Protecting Domestic Industries
Reducing Trade Deficits
National Security Concerns
Job Protection
Bargaining Power in Trade Negotiations

Points Against Trade Restrictions

Higher Costs for Consumers
Retaliation from Other Countries
Reduced Export Opportunities
Disruption of Supply Chains
Slower Economic Growth

5. Country A can produce 200 cars or 400 tons of wheat, while Country B can produce 100 cars or 500 tons of wheat in a given period. [5 Marks]

Which country has a comparative advantage in car production?

Which country has a comparative advantage in wheat production?

Country	Cars (units)	Wheat (tons)
A	200	400
B	100	500

1. Opportunity Cost for Cars:

Country A: 1 car = $400/200 = 2$ tons of wheat.

Country B: 1 car = $500/100 = 5$ tons of wheat.

Country A has a lower opportunity cost in car production.

2. Opportunity Cost for Wheat:

Country A: 1 ton of wheat = $200/400 = 0.5$ cars.

Country B: 1 ton of wheat = $100/500 = 0.2$ cars.

Country B has a lower opportunity cost in wheat production.

Country A has a comparative advantage in car production.

Country B has a comparative advantage in wheat production.

*** Best of Luck ***



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