FORMAT-7(SOT)

Semester: 4th Semester
Programme: B.Tech
Branch/Specialization: CSE

SPRING END SEMESTER EXAMINATION-2024

4th Semester, (B Tech Programme)

SUBJECT: INTERNATIONAL ECONOMIC COOPERATION

CODE: HS 20122

(For 2022 Admitted Batches)

Time: 2 Hours 30 Minutes **Full Marks: 50**

Answer any FIVE questions.
Question paper consists of two SECTIONS i.e. A and B.
Section A is compulsory.
Attempt any Four question from Sections B.
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.

SECTION-A (Learning levels 1)				Learning levels as per Bloom's taxonomy	Course Outcomes (CO)
1.		Answer the following questions.	[1× 10]		
	(a)	According to the Heckscher-Ohlin model, if the United States is richly endowed in human-capital relative to Mexico, then as NAFTA increasingly leads to more bilateral free trade between the two countries A. The United States will find its industrial base sucked into Mexico. B. Mexico will find its relatively highly skilled workers drawn to the United States. C. The wages of highly skilled U.S. workers will be drawn down to Mexican levels. D. The wages of highly skilled Mexican workers will rise to those in the United States. E. ***The wages of highly skilled Mexican workers will fall to those in the United States.***		1	CO1
	(b)	Hours of labour necessary to produce a unit of X and Y in two countries given in the following table. Check whether international trade is possible or not in this case answer with reason.		1	CO1

Good / Country	X	Y
A	200	400
B	450	500

Ans:Yes

For Country A: Opportunity Cost of X in terms of Y = 200 / 400 = 0.5 Opportunity Cost of Y in terms of X = 400 / 200 = 2

For Country B: Opportunity Cost of X in terms of Y = 450 / 500 = 0.9 Opportunity Cost of Y in terms of X = 500 / 450 = 1.11

Country A has a comparative advantage in producing X, and Country B has a comparative advantage in producing Y.Since the countries have different opportunity costs for

		producing X and Y, there is potential for mutually beneficial trade.			
	(c)	The balanced trade shows a deficit of Rs.5000 crores and the value of imports are Rs.9000 crores. What is the value of exports? *Ans:Value of Exports = 4000 crores*		1	CO2
	(d)	Why dumping is not good for an economy? ***Ans:Dumping is not good for an economy because it can harm domestic industries by undercutting their prices and making it difficult for them to compete. This can lead to job losses, reduced profitability, and even the closure of domestic firms. Additionally, dumping can distort competition and trade patterns, leading to inefficiencies in the global market.***			CO2
	(e)	What do the acronyms TRIMs stand for, and what do that mean? *Ans:TRIMS: Trade Related Investment Measures*		1	CO3
	(f)	There has been a significant increase in Indian citizens traveling abroad for leisure. What will be its likely impact on foreign exchange rate and how? *Ans:When there is a rise in the visit of foreign countries by the people in India, the demand for foreign currency increases. With the supply of foreign currency remaining same, the foreign exchange rises, implying a depreciation of rupee*.		1	CO4
	(g)	On a particular day, 200 US dollars are worth Rs 9666. On that day, how many dollars could be bought for Rs. 5074.? ***Ans: Rs. 9666 = 200 US dollars*** ***Rs 1=200 US dollarsRs.9666=0.026 USD*** ***Rs 5074.65=0.026×Rs.5074.65=$105***		1	CO4
	(h)	Depreciation of currency has the same effect on exports as devaluation of currency. State, giving valid reasons whether the statement is true or false. ***Ans:Depreciation and devaluation both have the same effect on exports as both of them normally encourages exports from a country as they become cheaper for foreign nationals and they can now buy more of domestic goods with the foreign currency more cheaper for foreign nationals and they can now buy more of domestic goods with the foreign currency.***		1	CO5
	(i)	How is a fix exchange rate determined? ***Ans: A fixed exchange rate is a regime where the official exchange rate is fixed to another country's currency or the price of gold. The determination of a fixed exchange rate involves a combination of economic analysis, policy decisions, and intervention in the foreign exchange market by the central bank or government authorities.***		1	CO5
	(j)	"An import tariff and an export subsidy can be treated as similar policies since they both support domestic producers"- Do you agree? Explain. ***Ans: While both import tariffs and export subsidies are used to support domestic producers, they do so in different ways and have different impacts on the economy. Import tariffs protect domestic industries from foreign competition but can also lead to higher prices for consumers. Export subsidies, on the other hand, make domestic products more competitive in foreign markets but can distort international trade. Therefore, it would be inaccurate to treat import tariffs and export subsidies as similar policies, as they have distinct effects and serve different purposes.***		1	CO6
		SECTION-B (Learning levels 2, 3, 4, 5 and 6)		Learning levels as per Bloom's taxonomy	Course Outcomes (CO)
2.	(a)	Using offer curves of two nations, logically explain equilibrium terms of trade. ***Ans: The offer curves of a country tells us, how much of a commodity one country is willing to exchange for another commodity. The point at which offer curves of respective countries cut each other will be the equilibrium point and terms of trade will be determined at that***	[5]	2	CO 1

point. Students will explain equilibrium terms of trade or Theory of Reciprocal demand with the help of offer curve.
(Ref: R.R. Paul book, pg no 30-D)

(b) The following table represents a country's Index of export price and Index of import price.
Calculate Net Barter Terms of Trade for each year and explain what happens to terms of trade over the given period of time. Describe any three factors influencing terms of trade. [5] 3 CO 1

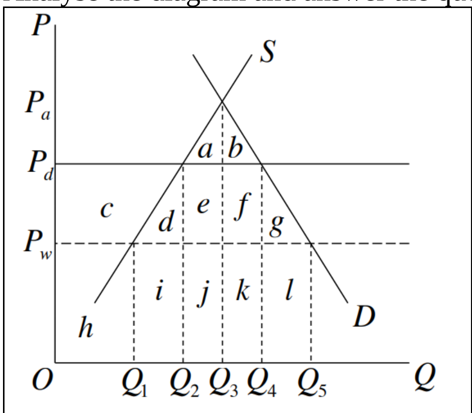
Year	Index of export price	Index of import price
2020	102	98
2021	94	100
2022	92	99
2023	105	103

Ans: NBTT = (Index of Export Price / Index of Import Price)
For 2020: NBTT = (102 / 98) = 104.08
For 2021: NBTT = (94 / 100) = 94
For 2022: NBTT = (92 / 99) = 92.93
For 2023: NBTT = (105 / 103) = 101.94
2020 to 2021: The NBTT decreases from 104.08 to 94, indicating a deterioration in the terms of trade. This means that the country is now receiving fewer units of imports for each unit of exports.
2021 to 2022: The NBTT decreases further from 94 to 92.93, indicating a continued deterioration in the terms of trade.
2022 to 2023: The NBTT increases from 92.93 to 101.94, indicating an improvement in the terms of trade. This means that the country is now receiving more units of imports for each unit of exports compared to the previous year.
Overall, the terms of trade for the country deteriorated from 2020 to 2022 but improved in 2023. This indicates fluctuations in the country's ability to trade its exports for imports over the given period of time.
(Ref: R.R. Paul book, pg no 25-D)

3. (a) Discuss various methods that a country can adopt to correct an adverse balance of payments. [5] 2 CO2

Students will write measures may be monetary (Monetary Policy ,Fiscal policy, Exchange Rate Depreciation, Devaluation etc)or non-monetary(Export Promotion, Import Substitute,Tariff,Quotas etc)
(Ref: R.R. Paul book, pg no-83-84-D & pg no-202-203-D)

(b) Analyse the diagram and answer the questions. [5] 4 CO2

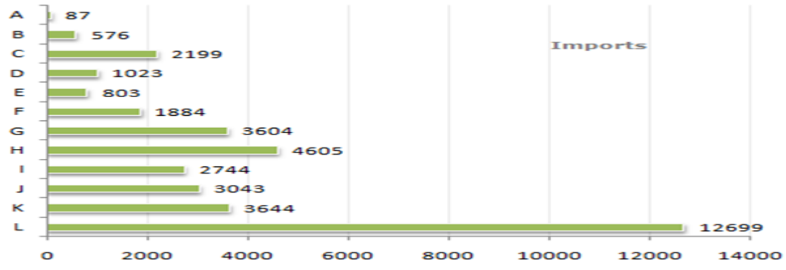


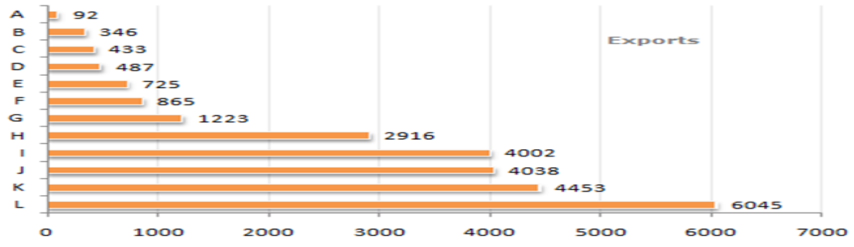
Various quantities are labeled on the axes as Q1, Q2, …, etc., while several areas in the figure have been labeled a, b, c, … etc. Use these labels to identify the following in the blanks provided:

a)The quantity produced in autarky: …………..
b)The tariff imposed: …….
c) Effect on price: ……
d)Effect on import: …….
e)Protective effect: ……
f)Consumption effect: …..
g)Revenue effect: …..
h)Redistribution effect: …..
i)Real loss on Production: ….
j)Real loss on consumption:……
k)Total real cost of Tariff:……

		Ans:***The autarky point is at intersection of S and D*** ***a)The quantity produced in autarky: Q3*** ***b)The tariff imposed: ……. PdPw*** ***c) Effect on price: ……Increases from OPw to OPd*** ***d)Effect on import: …….Reduced to Q2Q4*** ***e)Protective effect: ……OQ1 to OQ2 (Q1Q2)*** ***f)Consumption effect: …..OQ5 to OQ4 (Q4Q5)*** ***g)Revenue effect: …..e+f*** ***h)Redistribution effect: …..c*** ***i)Real loss on Production: ….d*** ***j)Real loss on consumption:……g*** ***k)Total real cost of Tariff:……(d+g)*** **(Ref: R.R. Paul book, pg no 69-D)**			
4.	(a)	"*India signed a significant trade agreement with the European Free Trade Association (EFTA) comprising Switzerland, Norway, Liechtenstein, and Iceland, committing to a $100 billion investment over 15 years. The Trade and Economic Partnership Agreement (TEPA) aims to increase foreign direct investment (FDI) in India and generate one million direct jobs. The deal, India's first FTA with developed nations, focuses on innovation and collaboration, with investments expected to flow steadily, potentially exceeding estimates*" -The Economic Times, Mar 10, 2024, 11:30:00 PM IST Conduct an analysis of the potential economic impact of the TEPA on Economy of India. Propose ways to ensure that the investment and job creation resulting from the TEPA contribute to sustainable development in India. ***Ans: Students will right down answer. Their answer must include advantages of Regional Trade Agreement(RTA).***	[5]	6	CO3
	(b)	Write short note on working of SDR with a suitable example. ***The Special Drawing Rights (SDR) is an international reserve asset created by the International Monetary Fund (IMF) to supplement the official reserves of member countries*** ***1. SDRs are allocated to IMF member countries based on their quotas in the IMF, which are determined largely by the size of their economies and their openness to trade.*** ***2. The value of the SDR is based on a basket of major currencies, including the US dollar, euro, Chinese yuan, Japanese yen, and British pound. This basket is reviewed every five years to ensure it reflects the relative importance of currencies in the world economy.*** ***3. Member countries can use SDRs in transactions among themselves, with the IMF, and in certain other transactions approved by the IMF. For example, a country facing a balance of payments crisis could use SDRs to bolster its reserves or to meet its international obligations.*** ***4. Students will give one example as of their choice.*** **(Ref: R.R. Paul book, pg no 183-185-D)**	[5]	3	CO3
5.	(a)	"Under the gold standard, the market rate of exchange fluctuates within the limits set by the gold points and never crosses them." Justify the statement(with diagrammatic presentation) ***Ans: The statement refers to the operation of the gold standard, a monetary system where the value of a country's currency is directly linked to a specific amount of gold. The "gold points" refer to specific values that represent the cost of shipping gold between countries, including insurance and other costs. These points typically represent the upper and lower limits within which the market rate of exchange can fluctuate under the gold standard.*** (Students will explain Mint Parity theory: Determination of Exchange Rate and fluctuations in Exchange Rate with the help of diagrammatic presentation.)	[5]	5	CO4

		(Ref: R.R. Paul book, pg no 95-97-D)			
	(b)	i.Company A produces rice and wheat and exports them all over the world. In India, the selling rate for wheat is 1 quintal = 4000 Rs, and for rice, it is 1 quintal = 5000 Rs. And in the US, the wheat and rice selling rates are 8000 and 9000 per quintal, respectively. So calculate purchasing power parity. ***Ans:For wheat: Purchasing Power Parity = 4000 / 8000 = 0.5*** ***For rice: Purchasing Power Parity = 5000 / 9000 = = 0.556.*** ii. Suppose the In the base year exchange rate between Indian rupee and US Dollar was Rs.50=$1.Due to inflation the current year price index in India is 176 and in USA it is 154 . The price indices of two countries in the base period were 100. Find the current equilibrium exchange rate between two currencies. ***Ans: Base exchange rate Rupees to Dollar (R0) = 50/1= 50*** ***PA_1 =176, PB_1 =154, PA_0 =100, PB_0 =100*** ***Current equilibrium exchange rate(R1)= R0 (PB_1/ PB_0)/ (PA_1/ PA_0) = 50×154/176 = 57.14*** ***The current equilibrium exchange rate between the Indian rupee and the US Dollar is Rs.57.14 = $1.*** **(Ref: R.R. Paul book, pg no 95-97-D)**	[5]	3	CO4
6.	(a)	Mahindra Group Chairman Anand Mahindra said that the Indian government could consider tying up international aid to industry. He explained, "*By making developing nations purchase from India in return for development aid, the government would be opening up markets which were otherwise closed for Indian industry*"- CNBC TV18, Mar 11, 2024 2:23 AM IST In his statement he is talking about which type of foreign trade policy(Import substitution/Export promotion). Justify his statement by elaborating the necessity of this trade policy. ***Ans: Anand Mahindra's statement aligns more with an export promotion trade policy. Export promotion focuses on encouraging exports as a means to boost economic growth and development. By suggesting that the Indian government could tie international aid to industry to exports, Mahindra is advocating for a strategy that would open up new markets for Indian industry, thereby promoting exports.*** ***The necessity:Market Diversification: Export promotion helps in diversifying markets, reducing dependence on a single market and making the economy more resilient to external shocks.*** ***Economic Growth: Export promotion can lead to increased production, job creation, and overall economic growth. It can also attract foreign investment and technology transfer.*** ***Foreign Exchange Earnings: Export promotion helps in earning foreign exchange, which is essential for importing goods and services that are not produced domestically.*** ***Industrial Development: Export promotion can stimulate the growth of industries that have export potential, leading to industrial development and technological advancement.*** ***Competitiveness: Export promotion policies often focus on improving the competitiveness of domestic industries in international markets, which can lead to efficiency gains and innovation.*** ***Export promotion can be a key driver of economic development, helping countries to achieve sustainable growth and reduce poverty.*** **(Ref: R.R. Paul book, pg no 206-210-D)**	[5]	5	CO5
	(b)	Analyse the given charts representing Foreign *Trade (Imports and Exports) by countries for a perticular year* and answer the questions. ***Note***: *Countries on Y axis and Import/Export data on X axis.* .	[5]	4	CO6





i.The ratio of the maximum exports to the minimum imports ?
ii. How many countries exhibited a trade surplus ?
iii. The total trade deficit/surplus for all the countries put together was ?
iv. The highest trade deficit was shown by which country ?
v. The ratio of Exports to Imports was highest for which country?

Ans: ***i. The value of maximum exports* = 6045.**
***The value of minimum imports* = 87.**
***Therefore, the required ratio (6045/87)* = 69.48**
ii. Out of a total of 12 countries,* 8 *showed a deficit while* 4 *showed a surplus.
iii. Sum of exports - Sum of imports = deficit(11286).
iv. Visually its clear that* L *has the highest trade deficit.
v.* I *has a ratio of 4002/2744* = 1.45, *which is the highest.

(Ref: R.R. Paul book, Chapter 12)

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