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B.A. V SEM

INTERNATIONAL ECONOMICS

- Brief and Intensive Notes
- Long & Short Answers

DR. VIVEK KUMAR SINGH

Dr. Vivek Kumar Singh

Assistant Professor

Department of Economics

Armapore P. G. College, Kanpur Nagar, UP

B A 3rd Year Sem. V (Course Code A080503T)

International Economics

Unit-I

International Economics:

International economics is a branch of economics that studies the interactions between countries, focusing on trade, investment, and financial flows across borders. It examines how nations exchange goods, services, capital, and labor, as well as the policies and factors that influence these exchanges.

Need of international economics:

The need for international economics arises from the interconnected nature of modern economies and the benefits derived from global economic interactions. Here are the primary reasons why international economics is essential:

1. **Global Interdependence:**
    - No country is entirely self-sufficient; nations rely on others for raw materials, finished goods, technology, and services.
    - International economics helps understand and manage the mutual reliance between countries, promoting efficient global trade.

2. **Specialization and Comparative Advantage:**
   - Countries have different resources, skills, and technologies, leading to specialization in goods and services where they have a comparative advantage.
   - International economics enables nations to trade efficiently and maximize overall global productivity.

3. **Economic Growth and Development:**
   - Trade and foreign investment contribute to the growth of economies by providing access to larger markets, advanced technology, and financial resources.
   - Developing countries, in particular, benefit from integrating into the global economy.

4. **Efficient Resource Allocation:**
   - Through international trade and investment, resources can be allocated to their most productive uses on a global scale.
   - This ensures better utilization of labour, capital, and natural resources.

5. **Addressing Global Challenges:**
   - Issues like climate change, income inequality, poverty, and financial crises transcend borders.
   - International economics offers insights and frameworks for cooperative solutions to these challenges.

6. **Understanding Trade Policies and Agreements:**
   - It helps analyse the impact of trade agreements, tariffs, and other policies on national and global economies.
   - This knowledge supports policymakers in creating beneficial economic strategies.

7. **Managing Exchange Rates and Financial Flows:**

   - Understanding currency markets and international capital flows is critical for stable and efficient global financial systems.
   - International economics helps countries navigate exchange rate systems and manage foreign investments effectively.

8. **Globalization and Integration:**

   - As economies become increasingly interconnected, international economics aids in understanding the dynamics of globalization.
   - It supports countries in adapting to global economic changes while addressing domestic challenges.

Significance of international economics:

The significance of international economics lies in its role in understanding, analysing, and influencing global economic interactions. It is crucial for both individual nations and the global economy as a whole. Here are the key points highlighting its importance:

1. **Facilitates Global Trade:**

Explains why nations trade and how they benefit from exchange.

Promotes trade policies that enhance economic welfare and encourage specialization based on comparative advantage.

2. **Promotes Economic Growth:**

Trade and investment across borders lead to increased productivity, technological advancement, and economic expansion.

Developing countries gain access to global markets, accelerating their growth and development.

3. **Encourages Economic Cooperation:**

Helps nations understand the benefits of collaboration through trade agreements and global organizations like the WTO, IMF, and World Bank.

Reduces conflicts by fostering mutual economic interests and partnerships.

4. **Manages Global Financial Systems:**

Provides insights into global capital flows, foreign investments and exchange rate dynamics.

Helps prevent or mitigate financial crises and maintain stability in international markets.

5. **Balances Domestic and Global Interests:**

Ensures that domestic economic policies align with international commitments and goals.

Minimizes negative spillovers from one country's policies to the global economy.

6. **Addresses Global Challenges:**

Tackles shared problems such as climate change, poverty, and income inequality by facilitating cross-border collaboration.

Provides frameworks for sustainable development and environmental protection.

7. **Supports Multinational Corporations (MNCs):**

Aids businesses in understanding global market dynamics, trade barriers, and foreign investment opportunities.

Encourages the flow of technology and capital, benefiting both host and home countries.

8. **Improves Resource Allocation:**

Ensures that resources are utilized where they are most productive, leading to higher global efficiency.

Reduces wastage and promotes optimal use of labour, capital, and natural resources.

9. **Explains Income Distribution:**

Analyses how trade and globalization impact income distribution within and between countries.

Helps address concerns about inequality and uneven benefits of globalization.

10. Provides Policy Guidance:

Informs policymakers on issues like tariffs, quotas, exchange rate regimes, and trade negotiations.

Offers strategies for balancing economic growth with equity and environmental sustainability.

Scope of international economics:

The scope of international economics is extensive, covering the principles, policies, and practices that govern economic interactions between nations. It encompasses the following key areas:

1. **International Trade Theory:**

Study of Trade Patterns: Examines why countries trade, what goods they trade, and the benefits of trade.

- Mercantilism: Early views on trade surplus.
- Absolute Advantage (Adam Smith): Specialization in goods a country can produce more efficiently.
- Comparative Advantage (David Ricardo): Focus on goods with the least opportunity cost.
- Heckscher-Ohlin Model: Trade based on resource endowments.
- New Trade Theories: Economies of scale and product differentiation in trade.

2. **International Trade Policy:**

    - Trade Restrictions: Study of tariffs, quotas, subsidies, and non-tariff barriers.
    - Free Trade Agreements: Analysis of regional and global trade agreements, e.g., WTO, NAFTA, EU.
    - Protectionism: Reasons and effects of restricting trade to protect domestic industries.

3. **Balance of Payments (BoP):**

    - Structure of BoP**:** Analysis of current account (trade of goods/services), capital account (investments), and financial account.
    - Surpluses and Deficits: Impacts of trade imbalances and measures to correct them.
    - Foreign Reserves: Role of reserves in maintaining economic stability.

4. **Exchange Rate Mechanisms:**

   - Exchange Rate Systems: Fixed, floating, and managed float systems.
   - Currency Markets: Factors influencing exchange rates, such as interest rates, inflation, and market speculation.
   - Currency Crises: Causes and management of fluctuations or devaluation.

5. **Open Economy Macroeconomics:**

   - Interaction between Domestic and Global Economies: Study of how monetary and fiscal policies affect international trade and capital flows.
   - Macroeconomic Policy Coordination: Efforts to align national policies for global stability.

6. **Globalization and Economic Integration:**

   - Regional Trade Agreements: Analysis of the impact of unions like the EU, ASEAN, and USMCA on member economies.
   - Global Supply Chains: Study of production and trade networks across countries.

7. **International Financial System:**

   - Capital Flows: Foreign direct investment (FDI) and portfolio investment.
   - International Institutions: Role of IMF, World Bank, and other financial organizations in stabilizing global finance.
   - Debt Management: Issues of sovereign debt and international borrowing.

8. **Development Economics:**

   - Role of Trade in Development: Impact of international trade and investment on developing nations.
   - Foreign Aid and Assistance: Effects of economic aid on recipient countries.
   - Poverty Alleviation: Use of international trade and policies to reduce poverty.

9. **Global Economic Challenges:**

   - Environmental Sustainability: Addressing climate change through international cooperation.

- Income Inequality: Understanding the distributional impacts of globalization and trade.
- Pandemics and Crises: Coordinated responses to global health or financial crises.

10. Future Trends in International Economics:

- Digital Trade: Role of e-commerce and digital goods in reshaping trade.
- Technological Advancements: Impact of AI, automation, and innovation on global economics.
- Geopolitical Shifts: The economic implications of shifting power dynamics among countries.

International trade

International trade involves the exchange of goods and services between countries. It allows nations to access resources and products they may not have domestically, promoting economic growth, market expansion, and technological advancements. Countries engage in trade to benefit from comparative advantages, where they focus on producing goods efficiently. Trade enhances consumer choices, reduces production costs, and strengthens global relations. By connecting economies worldwide, international trade fosters innovation and encourages specialization, leading to better use of global resources and economic interdependence.

Need of international trade

1. **Access to Resources:** Different countries have varying natural resources. International trade allows countries to obtain raw materials or goods they cannot produce domestically, such as oil, minerals, or specialized crops.
2. **Economic Growth:** Trade boosts a country's economy by increasing demand for its exports. This growth creates jobs, increases income, and improves living standards.
3. **Market Expansion:** By engaging in international trade, businesses access larger global markets. This allows firms to scale up production, reduce costs, and become more competitive.
4. **Variety of Goods:** International trade provides consumers with a wider variety of goods and services, enhancing choice and improving quality of life.

5. **Cost Efficiency:** Countries can focus on producing goods they are most efficient at (comparative advantage), leading to lower production costs and cheaper goods for consumers globally.
6. **Technological Exchange:** Through trade, countries can exchange technology and innovations, fostering technological progress and modernization.
7. **Improved Diplomatic Relations:** Trade encourages cooperation between countries, reducing the likelihood of conflict and promoting peaceful international relations.
8. **Risk Diversification:** Relying on both domestic and international markets helps countries diversify risks. Economic downturns in one region may be offset by stable or growing markets elsewhere.
9. **Better Use of Surplus:** Nations with surplus production can sell it internationally, maximizing resource utilization and preventing wastage.

Significance and Scope of International Trade

Significance:

1. **Economic Growth:** International trade boosts GDP by increasing exports and imports, leading to job creation and income generation.
2. **Resource Allocation:** It allows countries to specialize in the production of goods they are efficient at, optimizing global resource use.
3. **Variety and Quality:** Consumers benefit from a wider variety of goods and services at competitive prices, improving living standards.
4. **Innovation and Technology Transfer:** Trade encourages the exchange of ideas, technologies, and innovations between nations, fostering development
5. **Global Cooperation:** International trade strengthens diplomatic and economic ties, promoting peace and cooperation among nations.

Scope:

1. **Goods and Services:** Trade involves tangible products (like machinery, food) and intangible services (like finance, education).
2. **Global Markets:** It connects countries across continents, expanding businesses' reach beyond domestic borders.

3. **Trade Policies:** It is influenced by global organizations (WTO) and agreements (FTAs) that shape tariffs, quotas, and regulations.
4. **Emerging Economies**: Developing nations increasingly participate in trade, driving their economic growth and integration into the global economy.
5. **E-commerce:** With technological advancements, online international trade has expanded, offering new opportunities for businesses and consumers.

Production Possibility Curve:

This shows supply side. It shows the various alternative combinations of the two goods that produce most efficiently by fully utilising its factors of production with available technology. PPC is based on the concept of opportunity cost. Under the concept of constant opportunity cost PPC is straight line. Under the concept of increasing opportunity cost is PPC is concave to origin. Under the concept of decreasing opportunity cost is PPC is convex to origin.

Offer curve:

Offer curve is first used by Edgeworth and Marshall. Offer curve of a country determines the relative commodity prices at which trade takes palce. It is used to determine the gain form trade, exchange rate theory and theory of tariff.

Trade Indifference Curve:

This was developed by James Meade. It is used to derive the offer curve of a country from its Production Possibility Curve and community indifference curve.

Mercantilism Theory of Trade

Mercantilism is an economic theory that was dominant in Europe from the 16th to the 18th century. It advocates that a nation's wealth and power are best increased by maximizing exports and minimizing imports, thereby generating a trade surplus. The theory holds that wealth, particularly in the form of gold and silver, is finite, and a country should aim to accumulate as much of it as possible.

Key principles of Mercantilism include:

1. **Wealth Accumulation:** The goal was to build up national reserves of precious metals (gold and silver), considered essential for national power.
2. **Government Intervention:** Mercantilist policies involved heavy government regulation of the economy, such as imposing tariffs on imports, offering subsidies for exports, and granting monopolies to certain companies.
3. **Colonialism:** Mercantilist nations sought to establish colonies as sources of raw materials and exclusive markets for their manufactured goods, preventing other countries from accessing these resources.
4. **Trade Surplus:** The aim was to export more than import, ensuring that wealth flowed into the country and not out.
5. **Zero-Sum Game:** Mercantilism viewed global trade as a zero-sum game, where one nation's gain is another's loss, which led to competitive and protectionist trade practices.

Though outdated and replaced by more modern economic theories like free trade and comparative advantage, mercantilism played a significant role in shaping the early economic policies of many nations, particularly in Europe.

Classical Theory of Trade

The Classical Theories of Trade form the foundation of modern international economics. These theories emphasize the benefits of specialization and trade based on efficiency, output, and cost differences among countries. Below are the key classical trade theories developed by economists such as Adam Smith, David Ricardo, and John Stuart Mill.

1. Adam Smith’s Theory of Absolute Advantage (1776)

Key Concept: A country has an absolute advantage if it can produce goods using fewer resources or more efficiently than another country.

Principle: Countries should specialize in producing goods for which they have an absolute advantage and trade those goods for others, allowing for greater overall efficiency and global output.
Example: If Country A can produce 1 ton of wheat using fewer resources than Country B, while Country B can produce 1 ton of cloth more efficiently than Country A, both countries should specialize and trade.

2. David Ricardo’s Theory of Comparative Advantage (1817)

Key Concept: Even if a country does not have an absolute advantage, it can still benefit from trade if it has a comparative advantage—the ability to produce a good at a lower opportunity cost than another country.

Principle: Countries should specialize in producing goods in which it has the greatest advantage or the least comparative disadvantage.
A country will export those goods in which its comparative advantage is the greatest and import those goods in which its comparative disadvantage is the least.

Example: If Country A is better at producing both wheat and cloth, but its advantage in wheat is higher than in cloth, and Country B is slightly better at producing cloth than wheat, they should still trade wheat for cloth.

Assumption:

This theory is based on following assumptions:
1- It is based on labour theory of value.
2- Labour is the only factor of production.
3- Supply of labour is fixed.
4- There are two countries England and Portugal.
5- They produce the same goods wine and cloth.
6- Similar taste in both countries.
7- All units of labour are homogeneous.

8- Price is determined by labour costs.
9- Trade is based on barter system.
10- No trade barriers.
11- Perfect competition.
12- No transport cost.
13- Factors of production are fully employed.
14- Law of constant returns is fully operates.
15- Fixed technical knowledge.

3. Heberler's Opportunity Cost Theory:

Heberler's Opportunity Cost Theory was developed by economist G.B. Heberler and expands on the classical theory of comparative advantage. It emphasizes the importance of opportunity costs in international trade, stating that countries should specialize in producing goods for which they have the lowest opportunity costs.

Key Concepts:

1. **Opportunity Cost:** The cost of forgoing the next best alternative when making a decision. In production, it reflects the trade-offs involved in allocating resources to different goods.

2. **Comparative Advantage:** A country has a comparative advantage in producing a good if it can do so at a lower opportunity cost compared to another country. This principle guides countries to specialize in certain goods and trade for others.

3. **Production Possibility Frontier (PPF):** Heberler's theory uses the PPF to illustrate how opportunity costs vary. The slope of the PPF represents the opportunity cost of producing one good over another.

Assumption:

This theory is based on following assumptions:

1- Two countries.
2- Each country possesses two factors of production labour and capital.
3- Technology is unchanged.
4- Free trade.
5- Price is each goods equals marginal money cost.

6- Perfect competition.
7- Supply of each factor is fixed.
8- Each country can produce two goods.
9- Factors are immobile between two countries.
10- Factors are completely mobile within two countries.

Implications:

Increased Efficiency: By specializing based on opportunity costs, countries can enhance resource allocation, leading to increased total production and consumption.
Welfare Gains: Trade enables countries to consume beyond their production capabilities, improving overall welfare.

Criticisms:

The theory relies on the assumption of constant opportunity costs, which may not hold in practice.
It does not account for externalities, market failures, or the dynamic nature of economies.

4. Heckscher-Ohlin Theory (Factor Endowment Theory)

Key Concept: Developed by Eli Heckscher and Bertil Ohlin, this theory suggests that a country's comparative advantage is based on its factor endowments (such as land, labour, and capital). "Some countries have much labour and other have much capital. This theory illustrates that countries that are rich in much labour will export labour intensive commodities and countries that are rich in capital will export capital intensive commodities"

Principle: A country will export goods that use its abundant and cheap factors of production and import goods that require factors that are scarce or expensive.
Example: A country rich in labour will export labour-intensive goods, while a country rich in capital will export capital-intensive goods.

Assumption:

This theory is based on following assumptions:
1- This theory is two by two by two model.
2- Full employment.
3- Perfect competition.
4- Technical knowledge is fixed.

5- Free trade.
6- There are constant return to scale.
7- Full employment of resources.
8- Production functions of the two goods have different factor intensities.
9- Factor intensities are non – reversible.
10- Taste is fixed.
11- Preferences are fixed.
12- There are quantitative differences in factor endowments in different regions, qualitatively are homogeneous.

5. John Stuart Mill's Theory of Reciprocal Demand (1848)

Key Concept: Mill built on Ricardo's comparative advantage by introducing the concept of reciprocal demand, which influences the terms of trade (the ratio at which goods are exchanged internationally).

Principle: The terms of trade depend on the relative demand for each other's goods by trading countries. Trade will occur at a rate that reflects each country's supply and demand for the goods being traded.
Example: If Country A produces more of a good that Country B desires, it can trade at more favourable terms (e.g., more of Country B's good in exchange for its own).

6. Classical Theory of Wage Differentials (Factor Price Equalization Theory)

Key Concept: This theory, closely related to Heckscher-Ohlin, argues that trade between countries tends to equalize the prices of factors of production (such as wages and returns to capital) across countries.

Principle: As countries trade, the demand for factors in the exporting sectors increases, leading to higher wages and returns in the exporting country and lower prices in the importing country.
Example: If Country A has lower wages than Country B, the trade of labour-intensive goods will increase wages in Country A and decrease them in Country B, narrowing the wage gap.

7. **The Gains from Trade Theory**

Key Concept: Classical economists emphasized that trade creates mutual benefits by allowing countries to specialize in production and exchange goods.

Principle: Trade allows countries to consume more than they could in isolation, leading to higher standards of living for all participants. The overall efficiency in the global economy increases through specialization and exchange.
Example: Two countries with different production capabilities can each focus on what they do best, leading to an increase in the total quantity of goods available in the world.

Assumptions Common in Classical Theories of Trade:

1. **Labour is the only factor of production:** The focus is on labour, assuming that capital and other resources are not critical.
2. **Perfect Mobility of Labour within a Country:** Labour can move freely between sectors within a country but not across borders.
3. **Constant Returns to Scale:** The productivity of labour does not change as the scale of production increases.
4. **No Transport Costs:** Trade happens without significant costs associated with transporting goods.
5. **Free Trade:** Trade is free from tariffs, quotas, or other barriers.

Criticisms and Limitations:

Static in Nature: Classical theories assume fixed advantages and do not account for changes in technology or resources over time.

Ignores Economies of Scale: These theories do not consider that larger-scale production might lead to lower average costs.

Labour Immobility: In reality, factors like labour and capital are not perfectly mobile within or across countries.

Focus on Goods, Not Services: Classical theories primarily focus on goods rather than modern trade in services.

No Transport Costs: These theories overlook the real-world impact of transport costs, tariffs, and trade barriers on international trade.

Terms of trade

Terms of Trade (TOT) refer to the ratio at which a country can exchange its exports for imports from other countries. This shows the measure of purchasing power of exports of a country in terms of its imports. It can be expressed as the relation between export price and imports prices of its goods. It's a measure of a country's trade balance, typically expressed as an index.

Concept:

1. **Definition:** Terms of Trade is calculated by dividing the price index of a country's exports by the price index of its imports and multiplying by 100. The formula is:

Terms of Trade (TOT)= Export price index/ import price index ×100

2. Interpretation:

Improvement in TOT: If TOT is above 100, it suggests that the export prices have increased relative to import prices, meaning the country can buy more imports with the same amount of exports, which benefits the country.

Deterioration in TOT: If TOT falls below 100, it indicates that the country's export prices are lower relative to its import prices, meaning it has to export more to afford the same level of imports, which is less favourable.

3. **Implications:**
    - A favourable TOT can boost a nation's economy by increasing income from trade TOT can be influenced by factors like changes in global demand, exchange rates, or shifts in the prices of exported/imported goods (e.g., oil, agricultural products).
    - Understanding TOT helps policymakers and economists analyse the economic welfare of a country in the global market and make informed decisions about trade policies.

      Terms of trade can be classified as under:

1- Commodity / Net Barter Terms of Trade:

Commodity terms of trade was suggested by Taussig. It can be expressed as:

$T_c = P_x / P_m$

Where Tc stands for commodity terms of trade and P for price and x for export m for import.

2- **Gross Barter Terms of Trade:**

Gross terms of trade was suggested by Taussig. It can be expressed as:

$T_g = Q_m / Q_x$

Where Tg stands for gross terms of trade and Qm for quantities of imports and Qx for quantities of export.

3- **Income Terms of Trade:**

Income terms of trade was suggested by G. S. Dorrance and Stahel. It can be expressed as:

$T_y = T_c.Q_x$

$= P_x.Q_x / P_m$

Where Ty stands for income terms of trade, Tc stands for commodity terms of trade and Qx for export volume index.

4- Single Factoral Terms of Trade:

Single factoral terms of trade was developed by Prof. Viner. It can be expressed as:

$T_s = T_c. F_x$

$= P_x. F_x / P_m$

(Where $T_c = P_x/P_m$)

Where Ts stands for Single factoral terms of trade, Tc stands for commodity terms of trade and Fx for productivity index of export industries.

5- **Double Factoral Terms of Trade:**

Double Factoral Terms of Trade was developed by Prof. Viner. It can be expressed as:

$Td = Tc.\ Fx/Fm$

$= Px/\ Pm.\ \ Fx/\ Fm$

(Where $Tc= Px/Pm$)

Where Td stands for double factoral terms of trade, Tc stands for commodity terms of trade and Fx for productivity index of export industries and Fm for productivity index of import industries.

6- **Real Cost Terms of Trade:**
7-

Real Cost Terms of Trade was developed by Prof. Viner. It can be expressed as:

$Tr = Ts.\ Rx$

$=Px/Pm\ .\ Fx.Rx$

Where Tr stands for real cost terms of trade, Ts stands for single factoral terms of trade and Rx for the amount of disutility per unit of productive resources in producing export industries industries.

8- **UtilityTerms of Trade:**

Utility Terms of Trade was developed by Robertson. It can be expressed as:

$Tu = Tr.\ u$

$=Px/Pm\ .\ \ Fx.\ Rx.\ u$

Where Tu stands for utility terms of trade and Rx for the amount of disutility per unit of productive resources in producing export industries industries, Fx for productivity index of export industries an du is index of relative utility of imports .

Factors affecting terms of trade:

Several factors can impact a country's Terms of Trade (TOT), causing them to either improve or deteriorate:

1. **Changes in Global Demand and Supply:** Demand for Exports: If global demand for a country's exports rises, export prices may increase, improving TOT. Supply of Imports: If there's an increase in the supply of goods that a country imports, prices for those goods might fall, which can improve TOT.
2. **Exchange Rates:** Appreciation of a country's currency can make imports cheaper and exports more expensive, potentially worsening TOT. Conversely, depreciation can make exports cheaper and imports more expensive, improving TOT for an exporting country.
3. **Inflation Rates:** Higher inflation in a country's export sector, without corresponding inflation in import prices, may worsen TOT. on the other hand, lower inflation in export prices relative to import prices can improve TOT.
4. **Productivity and Technological Advancements:** If a country's production processes become more efficient (e.g., through new technology), it can produce goods at lower costs, potentially increasing the competitiveness of exports and improving TOT.
5. **Commodity Prices:** For countries that rely heavily on specific commodities (e.g., oil or metals), fluctuations in these prices can significantly affect TOT. Rising commodity prices usually improve TOT for exporters but deteriorate TOT for importers.
6. **Trade Policies and Tariffs:** Tariffs on imports can make imported goods more expensive, potentially leading to TOT improvement if the country is able to maintain export prices. Trade agreements that lower tariffs can also affect TOT by making imported goods cheaper.
7. **Changes in Market Structure:** The emergence of new competitors or changes in consumer preferences can shift demand away from a country's exports, reducing prices and worsening TOT.
8. **Natural Disasters or Climate Events: E**xtreme weather can disrupt supply chains, reducing export availability or raising prices, which can impact TOT. For example,

droughts can decrease agricultural exports, affecting TOT negatively for agricultural-exporting countries.

These factors are interrelated, and changes in one can influence others. The effect on TOT can be temporary or long-term, depending on the nature and extent of the change.

Very Short Type Question:

1- Define international economics.

Ans: International economics is a branch of economics that studies the interactions between countries, focusing on trade, investment, and financial flows across borders. It examines how nations exchange goods, services, capital, and labor, as well as the policies and factors that influence these exchanges.

2- Explain Offer Curve .
Ans: Offer curve is first used by Edgeworth and Marshall. Offer curve of a country determines the relative commodity prices at which trade takes palce. It is used to determine the gain form trade, exchange rate theory and theory of tariff.

3- What do you mean by opportunity cost?

Ans: The cost of forgoing the next best alternative when making a decision. In production, it reflects the trade-offs involved in allocating resources to different goods.

4- What do you understand by base of trade?
Ans: Comparative differences in cost is the base of any trade.

5- Discuss about the importance of the offer curve.
Ans: Offer curve of a country determines the relative commodity prices at which trade takes palce. It is used to determine the gain form trade, exchange rate theory and theory of tariff.

6- Define terms of trade.
Ans: Terms of Trade (TOT) refer to the ratio at which a country can exchange its exports for imports from other countries. This shows the measure of purchasing power of exports

of a country in terms of its imports. It can be expressed as the relation between export price and imports prices of its goods.

7- Explain Income terms of trade.

Ans: Income terms of trade was suggested by G. S. Dorrance and Stahel. It can be expressed as:

$Ty = Tc.Qx$

$= Px.Qx/ Pm$

Where Ty stands for income terms

8- Define Single factoral terms of trade.

Ans: Single factoral terms of trade was developed by Prof. Viner. It can be expressed as:

$Ts = Tc. Fx$

$= Px. Fx/ Pm$

(Where $Tc= Px/Pm$)

Where Ts stands for Single factoral terms of trade, Tc stands for commodity terms of trade and Fx for productivity index of export industries.

9- Discuss about Commodity terms of trade.

Ans: Commodity terms of trade was suggested by Taussig. It can be expressed as:

$Tc = Px/ Pm$

Where Tc stands for commodity terms of trade and P for price and x for export m for import.

10- What do you mean by real cost terms of trade?

Ans: Real Cost Terms of Trade was developed by Prof. Viner. It can be expressed as:

$Tr = Ts. Rx$

$=Px/Pm . Fx.Rx$

Where Tr stands for real cost terms of trade, Ts stands for single factoral terms of trade and Rx for the amount of disutility per unit of productive resources in producing export industries industries.

11- What is gross barter terms of trade?

Ans: Gross terms of trade was suggested by Taussig. It can be expressed as:

$Tg = Qm / Qx$

Where Tg stands for gross terms of trade and Qm for quantities of imports and Qx for quantities of export.

Short Type Question:

1- **What is international trade?**

Ans: International trade involves the exchange of goods and services between countries. It allows nations to access resources and products they may not have domestically, promoting economic growth, market expansion, and technological advancements. Countries engage in trade to benefit from comparative advantages, where they focus on producing goods efficiently. Trade enhances consumer choices, reduces production costs, and strengthens global relations. By connecting economies worldwide, international trade fosters innovation and encourages specialization, leading to better use of global resources and economic interdependence.

2- **Briefly discuss about the need of international economics.**

Ans: The need for international economics arises from the interconnected nature of modern economies and the benefits derived from global economic interactions. Here are the primary reasons why international economics is essential:

1.Global Interdependence:

- No country is entirely self-sufficient; nations rely on others for raw materials, finished goods, technology, and services.
- International economics helps understand and manage the mutual reliance between countries, promoting efficient global trade.

2. **Specialization and Comparative Advantage:**

   - Countries have different resources, skills, and technologies, leading to specialization in goods and services where they have a comparative advantage.
   - International economics enables nations to trade efficiently and maximize overall global productivity.

3. **Economic Growth and Development:**

   - Trade and foreign investment contribute to the growth of economies by providing access to larger markets, advanced technology, and financial resources.
   - Developing countries, in particular, benefit from integrating into the global economy.

4. **Efficient Resource Allocation:**

   - Through international trade and investment, resources can be allocated to their most productive uses on a global scale.
   - This ensures better utilization of labour, capital, and natural resources.

5. **Addressing Global Challenges:**

   - Issues like climate change, income inequality, poverty, and financial crises transcend borders.
   - International economics offers insights and frameworks for cooperative solutions to these challenges.

6. **Understanding Trade Policies and Agreements:**

   - It helps analyse the impact of trade agreements, tariffs, and other policies on national and global economies.
   - This knowledge supports policymakers in creating beneficial economic strategies.

7. **Managing Exchange Rates and Financial Flows:**

- Understanding currency markets and international capital flows is critical for stable and efficient global financial systems.
- International economics helps countries navigate exchange rate systems and manage foreign investments effectively.

8. **Globalization and Integration:**

- As economies become increasingly interconnected, international economics aids in understanding the dynamics of globalization.
- It supports countries in adapting to global economic changes while addressing domestic challenges.

3. What is the modern theory of international trade?

This theory was developed by Eli Heckscher and Bertil Ohlin, this theory suggests that a country's comparative advantage is based on its factor endowments (such as land, labour, and capital). "Some countries have much labour and other have much capital. This theory illustrates that countries that are rich in much labour will export labour intensive commodities and countries that are rich in capital will export capital intensive commodities"

A country will export goods that use its abundant and cheap factors of production and import goods that require factors that are scarce or expensive.
Example: A country rich in labour will export labour-intensive goods, while a country rich in capital will export capital-intensive goods.

4. What are the assumptions of the classical theory?
Answer: This theory is based on following assumptions:

1. It is based on labour theory of value.
2. Labour is the only factor of production.
3. Supply of labour is fixed.
4. There are two countries England and Portugal.
5. They produce the same goods wine and cloth.
6. Similar taste in both countries.
7. All units of labour are homogeneous.
8. Price is determined by labour costs.
9. Trade is based on barter system.
10. No trade barriers.
11. Perfect competition.
12. No transport cost.
13. Factors of production are fully employed.
14. Law of constant returns is fully operates.
15. Fixed technical knowledge.

5. Write down the scope of the International Trade.

Answer: Scope of the international trade are following:

- **i.** **Goods and Services:** Trade involves tangible products (like machinery, food) and intangible services (like finance, education).
- **ii.** **Global Markets:** It connects countries across continents, expanding businesses' reach beyond domestic borders.
- **iii.** **Trade Policies:** It is influenced by global organizations (WTO) and agreements (FTAs) that shape tariffs, quotas, and regulations.
- **iv.** **Emerging Economies**: Developing nations increasingly participate in trade, driving their economic growth and integration into the global economy.
- **v.** **E-commerce:** With technological advancements, online international trade has expanded, offering new opportunities for businesses and consumers.

6. What do you mean by production possibility curve ?

Ans- This shows supply side. It shows the various alternative combinations of the two goods that produce most efficiently by fully utilising its factors of production with available technology. PPC is based on the concept of opportunity cost. Under the concept of constant opportunity cost PPC is straight line. Under the concept of increasing opportunity cost is PPC is concave to origin. Under the concept of decreasing opportunity cost is PPC is convex to origin.

7. What do you mean by community indifference curve ?

   Ans- This was developed by James Meade. It is used to derive the offer curve of a country from its Production Possibility Curve and community indifference curve.

8. Discuss about mercantilism.

   Ans- Mercantilism is an economic theory that was dominant in Europe from the 16^{th} to the 18^{th} century. It advocates that a nation's wealth and power are best increased by maximizing exports and minimizing imports, thereby generating a trade surplus. The theory holds that wealth, particularly in the form of gold and silver, is finite, and a country should aim to accumulate as much of it as possible.

9. Distinguish between Net barter terms of trade and Income terms of trade.

   Ans- **Commodity / Net Barter Terms of Trade:**

   Commodity terms of trade was suggested by Taussig. It can be expressed as:

   $Tc = Px/ Pm$

   Where Tc stands for commodity terms of trade and P for price and x for export m for import.

   - **Income Terms of Trade:**

   Income terms of trade was suggested by G. S. Dorrance and Stahel. It can be expressed as:

   $Ty = Tc.Qx$

   $= Px.Qx/ Pm$

   Where Ty stands for income terms of trade, Tc stands for commodity terms of trade and Qx for export volume index.

10. Discuss about the scope of international economics.

Ans- **Goods and Services:** Trade involves tangible products (like machinery, food) and intangible services (like finance, education).

- Global Markets: It connects countries across continents, expanding businesses' reach beyond domestic borders.

- Trade Policies: It is influenced by global organizations (WTO) and agreements (FTAs) that shape tariffs, quotas, and regulations.

- Emerging Economies: Developing nations increasingly participate in trade, driving their economic growth and integration into the global economy.

- E-commerce: With technological advancements, online international trade has expanded, offering new opportunities for businesses and consumers.

11. What is the law of the comparative advantage?

Ans- Countries should specialize in producing goods in which it has the greatest advantage or the least comparative disadvantage.

A country will export those goods in which its comparative advantage is the greatest and import those goods in which its comparative disadvantage is the least.

Example: If Country A is better at producing both wheat and cloth, but its advantage in wheat is higher than in cloth, and Country B is slightly better at producing cloth than wheat, they should still trade wheat for cloth.

12. What are the assumptions of the classical theory?

Ans- Assumptions Common in Classical Theories of Trade:

1. **Labour is the only factor of production:** The focus is on labour, assuming that capital and other resources are not critical.
2. **Perfect Mobility of Labour within a Country:** Labour can move freely between sectors within a country but not across borders.
3. **Constant Returns to Scale: T**he productivity of labour does not change as the scale of production increases.
4. **No Transport Costs:** Trade happens without significant costs associated with transporting goods.
5. **Free Trade:** Trade is free from tariffs, quotas, or other barriers.

13. What are the factors which determine the terms of trade?

Ans- Several factors can impact a country’s Terms of Trade (TOT), causing them to either improve or deteriorate:

1. **Changes in Global Demand and Supply:** Demand for Exports: If global demand for a country’s exports rises, export prices may increase, improving TOT. Supply of Imports: If there’s an increase in the supply of goods that a country imports, prices for those goods might fall, which can improve TOT.
2. **Exchange Rates:** Appreciation of a country’s currency can make imports cheaper and exports more expensive, potentially worsening TOT. Conversely, depreciation can make exports cheaper and imports more expensive, improving TOT for an exporting country.
3. **Inflation Rates:** Higher inflation in a country’s export sector, without corresponding inflation in import prices, may worsen TOT. on the other hand, lower inflation in export prices relative to import prices can improve TOT.
4. **Productivity and Technological Advancements:** If a country’s production processes become more efficient (e.g., through new technology), it can produce goods at lower costs, potentially increasing the competitiveness of exports and improving TOT.

Long Type Question:

1. **Write the note on the factors which determine the terms of trade.**

Answer: Several factors can impact a country’s Terms of Trade (TOT), causing them to either improve or deteriorate:

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3. **Inflation Rates:** Higher inflation in a country’s export sector, without corresponding inflation in import prices, may worsen TOT. on the other hand, lower inflation in export prices relative to import prices can improve TOT.
4. **Productivity and Technological Advancements:** If a country’s production processes become more efficient (e.g., through new technology), it can produce goods at lower costs, potentially increasing the competitiveness of exports and improving TOT.

5. **Commodity Prices:** For countries that rely heavily on specific commodities (e.g., oil or metals), fluctuations in these prices can significantly affect TOT. Rising commodity prices usually improve TOT for exporters but deteriorate TOT for importers.
6. **Trade Policies and Tariffs:** Tariffs on imports can make imported goods more expensive, potentially leading to TOT improvement if the country is able to maintain export prices. Trade agreements that lower tariffs can also affect TOT by making imported goods cheaper.
7. **Changes in Market Structure:** The emergence of new competitors or changes in consumer preferences can shift demand away from a country's exports, reducing prices and worsening TOT.
8. **Natural Disasters or Climate Events: E**xtreme weather can disrupt supply chains, reducing export availability or raising prices, which can impact TOT. For example, droughts can decrease agricultural exports, affecting TOT negatively for agricultural-exporting countries.

These factors are interrelated, and changes in one can influence others. The effect on TOT can be temporary or long-term, depending on the nature and extent of the change.

Unit-II

Free trade:

Free trade is a system of international trade where goods and services can move across borders with minimal restrictions or tariffs. The idea is to create a level playing field where countries can freely buy and sell goods and services without artificial barriers, like quotas, tariffs, or subsidies that might favour domestic industries.

Concepts of Free Trade:

1. **No Tariffs or Quotas:** In free trade, countries refrain from imposing taxes on imports (tariffs) or limiting the quantity of goods imported (quotas), allowing foreign products to compete directly with local goods.
2. **Open Markets:** Free trade encourages open markets, where businesses can operate internationally without facing restrictive regulations or government intervention that favors domestic industries.
3. **Comparative Advantage:** The theory of free trade is largely based on the concept of comparative advantage, which suggests that countries benefit by specializing in producing goods they can make most efficiently and trading for goods they produce less efficiently.
4. **Increased Competition and Innovation:** Free trade promotes competition, which can drive innovation, increase efficiency, and provide consumers with more choices at potentially lower prices.
5. **Global Interdependence:** Free trade fosters interdependence among nations, as countries rely on one another for goods and services, leading to stronger economic ties.

Free trade agreements, like the North American Free Trade Agreement (NAFTA) or the European Union (EU) Single Market, are examples of frameworks where member countries agree to reduce trade barriers among themselves to facilitate free trade.

Arguments in Favour of Free Trade:

Arguments in favour of free trade emphasize its ability to drive economic growth, increase consumer choice, and foster global cooperation. Here are the primary arguments:

1. **Economic Growth and Efficiency:** Free trade promotes specialization based on comparative advantage—countries focus on producing goods they're most efficient at, which can lead to higher overall productivity and economic growth. By reducing inefficiencies, free trade can make markets more dynamic and prosperous.

2. **Consumer Benefit**: Free trade expands the variety of goods and services available to consumers at potentially lower prices, as countries can import items that are cheaper to produce elsewhere. This competition often leads to higher quality, more innovative products, and better options for consumers.

3. **Increased Innovation and Competitiveness:** Exposure to international markets forces domestic businesses to innovate and improve to stay competitive. This constant drive to innovate can lead to better technologies, improved production methods, and overall economic advancement.

4. **Job Creation in Export Sectors:** While free trade can cause job displacement in some areas, it also creates jobs in industries with a strong comparative advantage. Export sectors like technology, agriculture, and manufacturing can see growth, supporting employment and often leading to higher wages in those areas.

5. **Reduction of Global Poverty:** Free trade can play a significant role in lifting people out of poverty, especially in developing countries. By providing access to global markets, it enables these countries to grow their economies, increase incomes, and improve living standards.

6. **Strengthened International Relations:** By fostering interdependence, free trade encourages peaceful relations among nations, as countries have a vested interest in maintaining stable trade partnerships. This interconnectedness can contribute to global stability and cooperation.

7. **Encourages Efficient Resource Use:** Free trade encourages countries to allocate resources to industries where they have the highest productivity, minimizing waste and supporting more sustainable production practices. Efficient resource use ultimately benefits both the economy and the environment.

8. **Incentive for Structural Reform**: Exposure to international competition through free trade can encourage countries to improve policies, labor standards, and environmental regulations, making economies more resilient and adaptable.

9. **Lower Costs of Production:** With access to cheaper inputs and raw materials from around the world, companies can lower their production costs. This not only benefits the companies but also reduces the prices of finished goods, benefiting consumers and potentially increasing the overall demand for products.

10. **Reduces Monopoly Power:** Free trade can prevent domestic monopolies from dominating the market by introducing foreign competition. This helps keep prices down, improves product quality, and prevents exploitation of consumers by large, single players in the market.

While free trade has its complexities, proponents argue that it creates a globally efficient market, leads to better living standards, and opens opportunities for all trading partners. Many advocate for policies that maximize its benefits while addressing potential downsides, such as support for workers affected by job shifts and enforcement of fair trade practices.

Arguments against free Trade:

Arguments against free trade are generally based on concerns about its potential negative impacts on domestic industries, workers, and the environment. Here are some key arguments:

1. **Job Loss and Wage Suppression:** Free trade can lead to outsourcing, as companies move production to countries with lower labour costs. This can result in job losses and wage suppression in higher-cost, developed countries, particularly in manufacturing and industrial sectors.

2. **Harm to Emerging Industries:**Free trade can make it difficult for new or smaller industries in developing countries to compete with established foreign companies. Without protections like tariffs, these industries may struggle to survive against larger, more efficient international firms, potentially stifling local economic development.
3. **Exploitation of Labo**ur: Companies may shift production to countries with weaker labour laws, leading to exploitation of workers, including low wages, long working hours, and unsafe working conditions. Critics argue that free trade can encourage a "race to the bottom" in labour standards.

4. **Environmental Concerns:** Free trade may encourage production in countries with weak environmental regulations, leading to pollution and unsustainable resource extraction. Transporting goods across long distances also contributes to carbon emissions, which raises concerns about climate impact.

5. **National Security Risks:** Dependence on other countries for essential goods (e.g., food, medicine, energy) can pose security risks. During global crises or conflicts, nations relying on free trade may find themselves vulnerable if supply chains are disrupted or if trade relationships sour.

6. **Trade Deficit**s: Some argue that free trade can lead to persistent trade deficits, where a country imports more than it exports. Large trade deficits can increase national debt and potentially weaken a country's currency and economic stability.

7. **Loss of Cultural Identity:** Free trade can lead to cultural homogenization, where multinational corporations and global brands dominate local markets, overshadowing traditional industries, crafts, and customs. This can lead to a loss of cultural identity in smaller or developing nations.

8. **Unequal Distribution of Benefits:** The gains from free trade are not evenly distributed; benefits often accrue to multinational corporations and wealthier individuals, while low-skilled workers and small businesses may not see the same advantages. This can exacerbate income inequality within and between countries.

9. **Dumping and Unfair Competition:** Free trade can lead to dumping, where countries sell goods at very low prices to dominate a market, undermining local businesses. For example, large countries may subsidize their agriculture heavily, allowing them to export at prices below production cost, harming farmers in less-subsidize nations.

While free trade has many advocates, these criticisms highlight the need for policies to address potential downsides, such as labour and environmental standards, strategic protections for essential industries, and support for displaced workers.

Protection:

In trade, protection refers to policies and measures that governments use to shield their domestic industries from foreign competition. This is often done through methods such as:

Tariffs: Taxes on imported goods to make them more expensive compared to local products.

Quotas: Limits on the quantity of specific goods that can be imported, controlling supply and demand.

Subsidies: Financial assistance to domestic industries, lowering their production costs so they can better compete with foreign products.

Import Restrictions: Regulations and standards that make it harder for foreign goods to enter a market.

The goal of trade protection is usually to support local businesses, safeguard jobs, and maintain economic stability, especially in industries seen as vital to national interests. However, protectionism can lead to trade wars and limit the availability of diverse products for consumers.

Economics Arguments in favour of protection:

1. **Protecting Domestic Employment:** By restricting imports, protectionist policies can safeguard local jobs, particularly in industries that might otherwise be outcompeted by cheaper foreign goods.

2. **Developing Infant Industries:** New industries may struggle to compete with established international players, so protection allows them to grow, reach economies of scale, and eventually become globally competitive.

3. **Improving the Balance of Payments:** Reducing imports can help address trade deficits, as local consumers will spend more on domestic goods rather than foreign products, improving the balance of payments.

4. **Revenue Generation for the Government:** Tariffs on imports can be a significant revenue source for governments, especially in countries where tax infrastructure is under developed.

5. **Avoiding Dumping:** Protectionist measures, like tariffs, can prevent foreign companies from selling products below cost to drive domestic businesses out of the market, helping maintain fair competition.

6. **Protecting Strategic Industries:** Certain industries, such as agriculture, energy, and steel, are considered vital to national interests and economic stability. Protectionism helps these industries stay resilient against international fluctuations.

Non-Economic Arguments in Favour of Protection:

1. **National Security:** Protectionist policies can reduce reliance on foreign suppliers for essential goods like food, energy, and defence equipment, ensuring self-sufficiency in times of crisis.

2. **Cultural Preservation:** By limiting imports of certain goods, protectionism can help preserve local traditions, cultural industries, and domestic media from being overshadowed by foreign products.

3. **Environmental Standards:** Protection can prevent "carbon leakage," where companies move to countries with lower environmental regulations. By keeping production local, nations can enforce stricter environmental policies.

4. **Ethical Standards and Labour Practices:** Protecting local industries may limit trade with countries that have poor labour rights, unsafe working conditions, or exploitative practices, thus promoting fair labor standards globally.

5. **Political Leverage: T**rade barriers can be used as a tool of foreign policy, allowing countries to exercise influence over others by restricting or allowing trade based on political alignment and agreements.

These economic and non-economic arguments for protection often reflect broader concerns about sovereignty, social welfare, and the long-term stability of the economy. However, they are balanced against the potential for inefficiency, higher consumer costs, and reduced global cooperation.

Protection and Less developed countries (LDCs):

For less developed countries (LDCs), protectionism presents unique opportunities and challenges. While trade protection can offer certain advantages to LDCs, it also carries risks that could impact long-term growth and poverty reduction efforts.

Potential Benefits of Protection for Less Developed Countries:

1. **Developing Infant Industries:** Protection allows emerging industries in LDCs to grow without the immediate threat of foreign competition. This can help these industries gain scale and expertise before competing globally.

2. **Job Creation and Income Generation:** By protecting domestic industries, governments in LDCs can promote local job creation, which may help reduce poverty and improve living standards for people who might otherwise struggle to find stable employment.

3. **Diversification of the Economy:** LDCs often rely heavily on a few export sectors, like agriculture or raw materials. Protectionism can help them diversify into other industries, reducing dependency on volatile commodity markets and fostering a more balanced economy.

4. **Improving Balance of Payments:** By reducing imports, protectionist policies can improve the trade balance, helping LDCs conserve foreign exchange reserves that are crucial for economic stability.

5. **Promoting Self-Sufficiency:** Protection allows LDCs to produce essential goods domestically, reducing reliance on imports and fostering greater resilience to global price shocks and supply chain disruptions.

Challenges of Protection for Less Developed Countries:

1. **Higher Consumer Prices:** Tariffs and import restrictions can raise the cost of goods, making it harder for consumers in LDCs to afford essential items, particularly if there is limited local production capacity.

2. **Reduced Access to Technology and Innovation:** Protectionism can isolate LDCs from global innovation and advanced technologies that often accompany foreign goods. This can slow down productivity improvements and economic development.

3. **Risk of Inefficiency:** Without competitive pressures, protected industries may lack incentives to innovate or become efficient. This can lead to inefficiency, corruption, and reliance on government support.

4. **Possible Retaliation from Trade Partners:** Protectionist measures can lead to trade conflicts or retaliatory tariffs from other countries, potentially limiting access to export markets for LDCs' key products.

5. **Dependency on Government Support:** Prolonged protection can create a reliance on government subsidies and trade barriers, making it challenging for industries to compete independently in the global market.

6. **Hindering Foreign Direct Investment (FDI):** Protectionist policies might discourage foreign investors who are essential for bringing capital, technology, and jobs to LDCs.

LDCs often pursue a mix of protectionism and trade liberalization. Selective protectionist measures can be helpful in the short term to build capacity, while gradual liberalization can connect LDCs to global markets, attract investment, and foster sustainable growth.

Very Short Type Question

1- Define Free trade. .

Ans- Free trade is a system of international trade where goods and services can move across borders with minimal restrictions or tariffs. The idea is to create a level playing field where countries can freely buy and sell goods and services without artificial barriers, like quotas, tariffs, or subsidies that might favour domestic industries.

2- What do you mean by protection?

Ans- In trade, protection refers to policies and measures that governments use to shield their domestic industries from foreign competition. This is often done through methods such as:

Tariffs: Taxes on imported goods to make them more expensive compared to local products.

Quotas: Limits on the quantity of specific goods that can be imported, controlling supply and demand.

Short Type Question

1- What are the advantages of protection?

Ans- 1. **Protecting Domestic Employment:** By restricting imports, protectionist policies can safeguard local jobs, particularly in industries that might otherwise be outcompeted by cheaper foreign goods.

2. **Developing Infant Industries:** New industries may struggle to compete with established international players, so protection allows them to grow, reach economies of scale, and eventually become globally competitive.

3. **Improving the Balance of Payments:** Reducing imports can help address trade deficits, as local consumers will spend more on domestic goods rather than foreign products, improving the balance of payments.

2- What are the disadvantages of free trade?

Ans- 1. **Job Loss and Wage Suppression:** Free trade can lead to outsourcing, as companies move production to countries with lower labour costs. This can result in job losses and wage suppression in higher-cost, developed countries, particularly in manufacturing and industrial sectors.

2. **Harm to Emerging Industries:** Free trade can make it difficult for new or smaller industries in developing countries to compete with established foreign companies. Without protections like tariffs, these industries may struggle to survive against larger, more efficient international firms, potentially stifling local economic development.

3. **Exploitation of Labo**ur: Companies may shift production to countries with weaker labour laws, leading to exploitation of workers, including low wages, long working hours, and unsafe working conditions. Critics argue that free trade can encourage a "race to the bottom" in labour standards.

Long Type Question:

1- Critically discuss about the arguments for and against free trade.

Ans- Free trade is a system of international trade where goods and services can move across borders with minimal restrictions or tariffs. The idea is to create a level playing field where countries can freely buy and sell goods and services without artificial barriers, like quotas, tariffs, or subsidies that might favour domestic industries.

Concepts of Free Trade:

1. **No Tariffs or Quotas:** In free trade, countries refrain from imposing taxes on imports (tariffs) or limiting the quantity of goods imported (quotas), allowing foreign products to compete directly with local goods.
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3. **Comparative Advantage:** The theory of free trade is largely based on the concept of comparative advantage, which suggests that countries benefit by specializing in producing goods they can make most efficiently and trading for goods they produce less efficiently.
4. **Increased Competition and Innovation:** Free trade promotes competition, which can drive innovation, increase efficiency, and provide consumers with more choices at potentially lower prices.
5. **Global Interdependence:** Free trade fosters interdependence among nations, as countries rely on one another for goods and services, leading to stronger economic ties.

Free trade agreements, like the North American Free Trade Agreement (NAFTA) or the European Union (EU) Single Market, are examples of frameworks where member countries agree to reduce trade barriers among themselves to facilitate free trade.

Arguments in Favour of Free Trade:

Arguments in favour of free trade emphasize its ability to drive economic growth, increase consumer choice, and foster global cooperation. Here are the primary arguments:

1. **Economic Growth and Efficiency:** Free trade promotes specialization based on comparative advantage—countries focus on producing goods they're most efficient at, which can lead to higher overall productivity and economic growth. By reducing inefficiencies, free trade can make markets more dynamic and prosperous.

2. **Consumer Benefit**: Free trade expands the variety of goods and services available to consumers at potentially lower prices, as countries can import items that are cheaper to produce elsewhere. This competition often leads to higher quality, more innovative products, and better options for consumers.

3. **Increased Innovation and Competitiveness:** Exposure to international markets forces domestic businesses to innovate and improve to stay competitive. This constant drive to innovate can lead to better technologies, improved production methods, and overall economic advancement.

4. **Job Creation in Export Sectors:** While free trade can cause job displacement in some areas, it also creates jobs in industries with a strong comparative advantage. Export sectors like technology, agriculture, and manufacturing can see growth, supporting employment and often leading to higher wages in those areas.

5. **Reduction of Global Poverty:** Free trade can play a significant role in lifting people out of poverty, especially in developing countries. By providing access to global markets, it enables these countries to grow their economies, increase incomes, and improve living standards.

6. **Strengthened International Relations:** By fostering interdependence, free trade encourages peaceful relations among nations, as countries have a vested interest in maintaining stable trade partnerships. This interconnectedness can contribute to global stability and cooperation.

7. **Encourages Efficient Resource Use:** Free trade encourages countries to allocate resources to industries where they have the highest productivity, minimizing waste and

supporting more sustainable production practices. Efficient resource use ultimately benefits both the economy and the environment.

8. **Incentive for Structural Reform**: Exposure to international competition through free trade can encourage countries to improve policies, labor standards, and environmental regulations, making economies more resilient and adaptable.

9. **Lower Costs of Production:** With access to cheaper inputs and raw materials from around the world, companies can lower their production costs. This not only benefits the companies but also reduces the prices of finished goods, benefiting consumers and potentially increasing the overall demand for products.

10. **Reduces Monopoly Power:** Free trade can prevent domestic monopolies from dominating the market by introducing foreign competition. This helps keep prices down, improves product quality, and prevents exploitation of consumers by large, single players in the market.

While free trade has its complexities, proponents argue that it creates a globally efficient market, leads to better living standards, and opens opportunities for all trading partners. Many advocate for policies that maximize its benefits while addressing potential downsides, such as support for workers affected by job shifts and enforcement of fair trade practices.

Arguments against free Trade:

Arguments against free trade are generally based on concerns about its potential negative impacts on domestic industries, workers, and the environment. Here are some key arguments:

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5. **National Security Risks:** Dependence on other countries for essential goods (e.g., food, medicine, energy) can pose security risks. During global crises or conflicts, nations relying on free trade may find themselves vulnerable if supply chains are disrupted or if trade relationships sour.

6. **Trade Deficit**s: Some argue that free trade can lead to persistent trade deficits, where a country imports more than it exports. Large trade deficits can increase national debt and potentially weaken a country's currency and economic stability.

7. **Loss of Cultural Identity:** Free trade can lead to cultural homogenization, where multinational corporations and global brands dominate local markets, overshadowing traditional industries, crafts, and customs. This can lead to a loss of cultural identity in smaller or developing nations.

8. **Unequal Distribution of Benefits:** The gains from free trade are not evenly distributed; benefits often accrue to multinational corporations and wealthier individuals, while low-skilled workers and small businesses may not see the same advantages. This can exacerbate income inequality within and between countries.

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While free trade has many advocates, these criticisms highlight the need for policies to address potential downsides, such as labour and environmental standards, strategic protections for essential industries, and support for displaced workers.

2- Critically examine about the arguments for and against Protection.

Ans- In trade, protection refers to policies and measures that governments use to shield their domestic industries from foreign competition. This is often done through methods such as:

Tariffs: Taxes on imported goods to make them more expensive compared to local products.

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The goal of trade protection is usually to support local businesses, safeguard jobs, and maintain economic stability, especially in industries seen as vital to national interests. However, protectionism can lead to trade wars and limit the availability of diverse products for consumers.

Economics Arguments in favour of protection:

1. **Protecting Domestic Employment:** By restricting imports, protectionist policies can safeguard local jobs, particularly in industries that might otherwise be outcompeted by cheaper foreign goods.

2. **Developing Infant Industries:** New industries may struggle to compete with established international players, so protection allows them to grow, reach economies of scale, and eventually become globally competitive.

3. **Improving the Balance of Payments:** Reducing imports can help address trade deficits, as local consumers will spend more on domestic goods rather than foreign products, improving the balance of payments.

4. **Revenue Generation for the Government:** Tariffs on imports can be a significant revenue source for governments, especially in countries where tax infrastructure is under developed.

5. **Avoiding Dumping:** Protectionist measures, like tariffs, can prevent foreign companies from selling products below cost to drive domestic businesses out of the market, helping maintain fair competition.

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Non-Economic Arguments in Favour of Protection:

1. **National Security:** Protectionist policies can reduce reliance on foreign suppliers for essential goods like food, energy, and defence equipment, ensuring self-sufficiency in times of crisis.

2. **Cultural Preservation:** By limiting imports of certain goods, protectionism can help preserve local traditions, cultural industries, and domestic media from being overshadowed by foreign products.

3. **Environmental Standards:** Protection can prevent "carbon leakage," where companies move to countries with lower environmental regulations. By keeping production local, nations can enforce stricter environmental policies.

4. **Ethical Standards and Labour Practices:** Protecting local industries may limit trade with countries that have poor labour rights, unsafe working conditions, or exploitative practices, thus promoting fair labor standards globally.

5. **Political Leverage:** **T**rade barriers can be used as a tool of foreign policy, allowing countries to exercise influence over others by restricting or allowing trade based on political alignment and agreements.

These economic and non-economic arguments for protection often reflect broader concerns about sovereignty, social welfare, and the long-term stability of the economy. However, they are balanced against the potential for inefficiency, higher consumer costs, and reduced global cooperation.

Unit – III

Economic Integration

Economic integration refers to the process by which countries reduce barriers to trade and movement of capital, labour, and resources, ultimately aiming for closer economic cooperation. There are several theories and forms of economic integration, each involving different levels of integration and cooperation. Here's a summary of the primary theories and forms:

Theories of Economic Integration

1. Customs Union Theory:

Proposed by Jacob Viner, this theory examines how trade creation (beneficial intra-bloc trade) and trade diversion (shifting imports to less efficient bloc partners) affect member nations. The theory emphasizes the importance of comparative advantage and efficiency gains that result from the elimination of tariffs and quotas among member nations.

2. Optimal Currency Area (OCA) Theory:

Developed by Robert Mundell, the OCA theory explains the conditions under which a group of countries can share a common currency. Key criteria include labour mobility, capital mobility, price and wage flexibility, and similar business cycles among the countries.

3. Endogenous Growth Theory:

This theory suggests that economic integration can accelerate long-term growth by fostering knowledge-sharing, innovation, and technological advances. It proposes that open trade between integrated economies boosts productivity and economic growth.

4. Gravity Model of Trade:

The gravity model posits that trade between two countries is positively correlated with their economic sizes and negatively correlated with the distance between them. Economic integration agreements can lower trade costs, thus increasing trade flows even with distant partners.

Benefits of Economics integration

Economic integration brings several key benefits to member countries and their economies. These benefits include:

1. **Increased Trade and Market Access:** By reducing or eliminating trade barriers such as tariffs and quotas, economic integration allows member countries to access larger markets. This encourages cross-border trade, leading to increased revenue for businesses and economic growth for member countries.

2. **Enhanced Economic Efficiency and Competitiveness:** Integration promotes specialization based on comparative advantage, where each country produces goods and services for which it has a relative efficiency. This leads to more efficient resource allocation, reduced production costs, and improved competitiveness on a global scale.

3. **Attraction of Foreign Direct Investment (FDI):** An integrated market with harmonized rules and larger customer bases is attractive to foreign investors. Economic integration often leads to increased foreign direct investment, bringing capital, technology, and jobs to member countries.

4. **Economies of Scale:** Access to a larger market allows firms to increase production and benefit from economies of scale, reducing per-unit costs. This can lead to lower prices for consumers, improved profitability for firms, and higher productivity overall.

5. **Lower Costs for Consumers**: Economic integration often results in reduced costs for imported goods due to the elimination of tariffs and increased competition. Consumers benefit from a greater variety of goods and services at lower prices, improving their overall welfare and purchasing power.

6. **Increased Employment Opportunities:** The removal of trade barriers encourages cross-border movement of labour and capital. This can lead to job creation as businesses expand within the integrated region. Additionally, workers may find new employment opportunities within the integrated market.

7. **Improved Innovation and Technology Transfer:** Greater collaboration and trade between countries often lead to technology sharing and innovation diffusion. Companies and industries gain access to new ideas, research, and technologies from their integrated partners, which drives innovation and long-term growth.

8. **Political and Economic Stability:** Economic integration can lead to closer political ties and cooperation among member countries. This collaboration can reduce the likelihood of conflicts, enhance political stability, and improve the resilience of the member economies to external economic shocks.

9. **Enhanced Bargaining Power:** Member countries in an economic union can negotiate trade deals with other countries or blocs as a single entity, giving them more leverage and bargaining power than they would have individually.

10. **Improved Economic Growth and Development:** Overall, economic integration can lead to faster economic growth by creating a larger, more dynamic market. This contributes to improved living standards, infrastructure development, and increased investment in member countries.

Economic integration, while challenging, creates opportunities for growth, cooperation, and enhanced economic prosperity, helping member nations achieve benefits that would be difficult to attain individually.

Forms of Economic Integration

1. **Preferential Trade Area (PTA):**

Member countries agree to reduce tariffs on certain goods. This is the most basic form, where not all trade barriers are removed, and preferential treatment is given only to certain goods.

2. **Free Trade Area (FTA):**

In an FTA, member countries agree to eliminate tariffs and quotas on most goods and services traded among them, while each country maintains its trade policies with non-members. Examples include the North American Free Trade Agreement (NAFTA, now replaced by USMCA).

3. Customs Union:

This involves the removal of internal trade barriers and adoption of a common external tariff on imports from non-member countries. The European Union began as a customs union before evolving into a higher level of integration.

4. Common Market:

A common market includes a customs union but also allows free movement of labour, capital, and services across member states. The EU achieved a common market status before moving further toward economic integration.

5. Economic Union:

This form combines the features of a common market with harmonized economic policies and often a shared currency. The EU represents an economic union with the introduction of the Euro for several of its member states.

6. Political Union:

This is the most advanced form of integration, where member countries unify their policies on economic, social, and political fronts. A political union involves a shared constitution, centralized governance, and the surrender of significant national sovereignty, as seen partially within the EU.

Custom union

The concept of a custom union (or more commonly, a customs union) is an economic arrangement between two or more countries that aims to facilitate trade by removing tariffs and establishing common external trade policies for non-member countries. In the context of production and consumption, a customs union can impact both by affecting the flow of goods, services, and production inputs across member countries, influencing consumer choices, production costs, and economic interdependence.

Effects on Production and Consumption in a Customs Union:

1. **Lower Production Costs:** With tariffs removed within the union, producers in member countries can access raw materials and components at lower prices. This encourages increased production due to reduced input costs, potentially leading to more competitive pricing and growth in industrial output. By creating a larger market for producers, a customs union can lead to economies of scale, where companies produce larger quantities at lower per-unit costs.

2. **Consumer Benefits:** Consumers benefit from increased availability and diversity of goods as they can purchase products from all member countries without facing added tariffs. This often leads to lower prices, greater choice, and improved product quality due to increased competition. Additionally, the enhanced variety of products can raise overall consumer welfare, as people have access to a broader range of goods that cater to different tastes, preferences and price points.

3. **Trade Creation and Trade Diversion**:

Trade Creation: This occurs when high-cost domestic production is replaced by low-cost imports from other member countries. It leads to more efficient allocation of resources, as each country specializes in the production of goods where it has a comparative advantage.

Trade Diversion: In some cases, the customs union may divert trade from a more efficient external supplier to a less efficient supplier within the union due to the common external tariff. This can reduce overall economic welfare for member countries and impact consumer prices.

4. **Impact on Domestic Industries:** Domestic industries may need to adapt to increased competition within the customs union. Some industries may experience growth due to access to a larger market, while others may face challenges if they are less competitive. Over time, resources and labour may shift toward more competitive sectors, leading to specialization and, ideally, enhanced productivity.

5. **Harmonized Standards and Regulations:** Customs unions often work toward harmonizing standards and regulations, which can simplify production and reduce costs for businesses that operate across member countries. For consumers, harmonized regulations can lead to consistent quality standards for products and services, creating a safer and more predictable market.

6. **External Economic Relations:** Member countries lose some independence in setting their own trade policies with non-member countries since they must adopt the common external tariff of the customs union. This can affect both producers, who rely on imports of specific raw materials, and consumers, who may pay higher prices for goods from non-union countries due to tariffs.

In summary, a customs union can drive production efficiency and lower consumer costs, but it also comes with trade-offs in terms of trade diversion, industry adjustment, and external trade policy flexibility. It creates a more integrated economic environment that benefits both producers and consumers within the union, although some industries may need support to remain competitive in a larger market context.

Problem involved in formation of custom union:

Forming a customs union involves several challenges and potential drawbacks, as the process requires aligning economic policies, balancing national interests, and addressing trade-offs among member countries. Here are some of the primary issues:

1. **Loss of Trade Policy Autonomy:**

- Member countries in a customs union must adopt a common external tariff, meaning they lose some control over their individual trade policies with non-member countries. This can restrict a country's ability to respond independently to changes in global trade dynamics or negotiate bilateral trade agreements with countries outside the union.
- Adjusting to a collective policy can also be difficult if members have different economic structures or priorities, making some more sensitive to certain trade agreements or tariffs than others.

2. **Trade Diversion:**

- Customs unions can lead to trade diversion, where trade shifts from a more efficient external producer to a less efficient producer within the union due to the common external tariff. This can reduce overall economic welfare by prioritizing trade within the union, even if it's not the most cost-effective option globally.
- Consumers and businesses may pay higher prices if they must buy from less efficient producers within the union instead of cheaper suppliers outside it.

3. **Complex Negotiations and National Interests:**

- Forming a customs union requires extensive negotiations to align the policies, tariffs, and standards across all member countries. Each country has unique economic interests and sectors they want to protect, which can complicate reaching an agreement on the common external tariff.
- Political issues may arise, as countries must often compromise on key aspects of their economic policy to form a cohesive union, and some members might feel pressured into making concessions.

4. **Adjustment Costs for Certain Industries:**

- Some domestic industries may struggle to compete with imports from within the union, especially if they are less efficient. This can lead to business closures, job losses, and economic disruption in industries that cannot compete.
- Structural changes may be required to help these industries transition, such as government support for retraining workers or investing in other areas of the economy, which can be costly and politically sensitive.

5. **Economic Disparities Between Member Countries:**

- Differences in economic development, income levels, and production capacities can create imbalances in the benefits each country receives from the customs union. Wealthier or more industrialized members might gain more due to better resources and competitiveness, while smaller or less developed members may struggle to keep up.
- Economic disparities can lead to tension, as some countries may feel they are disproportionately bearing the costs or not benefiting equally, potentially threatening the union's stability.

6. **Political and Sovereignty Concerns:**

- The process of creating and maintaining a customs union requires countries to transfer some level of sovereignty over trade policy to a collective body or decision-making process. This can raise concerns about loss of national control, especially in cases where union policies conflict with local preferences or political goals.
- Sovereignty issues may also extend to regulatory harmonization, where countries need to adopt common standards and policies, potentially impacting sensitive areas like environmental regulations, labour laws, and product standards.

7. **Impact on Relationships with Non-Member Countries:**

   - Since the customs union operates with a shared external tariff, it may impact relationships with trade partners outside the union. Non-member countries may view the union's tariffs as protectionist, leading to trade tensions or retaliatory measures.
   - Customs unions can also disrupt existing trade agreements that members have with third countries, requiring renegotiation or adjustments, which can be time-consuming and contentious.

8. **Implementation and Administrative Costs:**

   - Establishing a customs union requires setting up a unified customs framework, including shared border control, administrative processes, and dispute resolution mechanisms. These can be expensive and require significant infrastructure and coordination.
   - Ensuring consistent enforcement of tariffs, rules of origin, and standards across all member countries can also be challenging, as differences in administrative capacity and resources may lead to uneven application.

9. **Risk of Reduced Global Competitiveness:**

   - By focusing on internal trade, customs unions can sometimes lead to less emphasis on improving global competitiveness. If the union prioritizes protecting certain sectors or industries within the member states, it can stifle innovation and prevent industries from adapting to international market demands.
   - Long-term economic growth can be impacted if the customs union is not actively pursuing external trade relationships and integrating with the global economy.

In summary, forming a customs union involves complex negotiations and coordination, often requiring countries to balance national interests with the potential benefits of increased market access and economic integration. Addressing these issues effectively is essential to creating a stable and mutually beneficial customs union that promotes long-term economic growth.

Political economy of protections

The political economy of protection refers to the interplay of economic and political factors that influence a government's decision to implement protectionist policies, such as tariffs, quotas, and subsidies, to shield domestic industries from foreign competition. Understanding this concept involves examining the motivations, pressures, and outcomes that drive protectionist measures, particularly how political interests and economic structures shape these policies.

Key Elements of the Political Economy of Protections

1. **Domestic Interest Groups:** Protectionist policies are often driven by domestic interest groups—such as industries, unions, and lobbying organizations—that seek to protect their interests from foreign competition For example, industries that are threatened by cheaper imports, like agriculture or manufacturing, may lobby for tariffs or subsidies to maintain their market share, arguing these measures are needed to protect jobs or national security.

2. **Political Incentives and Electoral Pressure:** Politicians may support protectionist policies to gain or maintain support from key voter groups or regions, especially those economically reliant on industries vulnerable to international competition. In many cases, the benefits of protectionism (such as job preservation in specific industries) are immediate and visible, while the broader economic costs (like higher prices or retaliation from trade partners) are often less direct and dispersed, making protectionism a politically attractive option in the short term.

3. **National Security Concerns**: Governments may use protectionist policies to safeguard industries deemed crucial for national security, such as defence, energy, or technology sectors. Strategic considerations, such as ensuring a domestic supply of essential goods or reducing reliance on foreign sources for critical materials, can be key motivators for implementing tariffs or investment restrictions.

4. **Economic Nationalism:** Economic nationalism, or the belief in prioritizing domestic economic interests over global cooperation, can fuel support for protectionist policies. This approach often emphasizes self-sufficiency and the need to protect domestic businesses and workers from the potential threats of globalization, which is sometimes perceived as benefiting large corporations or foreign interests at the expense of local economies.

5. **Infant Industry Argument:** The infant industry argument is a classic rationale for protectionism, asserting that emerging domestic industries need temporary protection from foreign competition to develop and become competitive. Governments may impose

tariffs, subsidies, or import restrictions to support these industries, with the expectation that they will eventually mature and thrive without protection.

6. **Distributional Effects and Inequality:** Trade liberalization can lead to income inequality and economic dislocation within a country, as certain sectors benefit while others suffer. Workers in industries facing import competition may experience job losses or wage cuts, fuelling support for protectionist measures as a means of economic stabilization. Protectionist policies can be seen as tools for managing the distributional effects of trade and globalization, helping to cushion the impact on vulnerable groups.

7. **Political Institutions and Policy Formation:** The structure of political institutions influences the likelihood and form of protectionist policies. For example, countries with strong centralized governments may be better able to resist pressure from interest groups, while decentralized governments may face more local pressures to protect certain industries. Additionally, political systems with more veto points (e.g., checks and balances) might find it harder to implement sweeping trade liberalization, as multiple actors can block or modify trade-related policies to favour domestic interests.

8. **Retaliation and Trade Wars:** Protectionist policies can provoke retaliation from trade partners, leading to trade wars that harm both economies. Politicians may still enact these policies if they believe the political gains outweigh the economic risks or if they see an opportunity to exert leverage over trade partners in negotiations. The desire to protect domestic industries may outweigh the risks of retaliation, especially in sectors that have strong political influence or are symbolic of national identity.

9. **Rent-Seeking and Corruption:** Protectionist policies can create opportunities for rent-seeking, where businesses and individuals try to gain financial advantage through lobbying rather than innovation or efficiency. Tariffs, quotas, and subsidies create market distortions that can lead to inefficiencies, with resources being diverted to political lobbying rather than productive uses. In some cases, protectionist policies are maintained due to corruption, as powerful groups capture the benefits of restricted competition.

The South Asian Free Trade Area (SAFTA)

The South Asian Free Trade Area (SAFTA) is an agreement aimed at promoting and enhancing economic cooperation and trade among the member countries of the South Asian Association for Regional Cooperation (SAARC). Signed in 2004 and effective since 2006, SAFTA seeks to reduce trade barriers, improve market access, and encourage regional economic integration within South Asia.

SAFTA Member Countries

SAFTA includes the eight SAARC member countries:

1. Afghanistan
2. Bangladesh
3. Bhutan
4. India
5. Maldives
6. Nepal
7. Pakistan
8. Sri Lanka

Objectives of SAFTA

The primary goals of SAFTA are to:

1. **Reduce Tariffs and Trade Barriers:** SAFTA aims to reduce customs duties and tariffs on goods traded between member countries. The ultimate goal is to eliminate tariffs and create a free trade area within the region.

2. **Enhance Regional Economic Integration**: By improving trade links, SAFTA encourages cooperation among South Asian nations, aiming to create a more integrated regional economy.

3. **Promote Economic Development:** SAFTA seeks to boost the economic growth of member countries by providing better access to each other's markets, which can lead to increased production, trade, and investment.

4. **Improve Trade Competitiveness:** SAFTA hopes to strengthen the competitiveness of member countries' goods and services on a regional and global scale.

Key Features of SAFTA

1. **Tariff Reduction:** Under SAFTA, member countries agreed to progressively reduce tariffs on trade within the region. The target was to bring tariffs down to 0-5% over a set period, with differentiated timelines for Least Developed Countries (LDCs) and non-LDCs.

2. **Sensitive List:** Each country maintains a "sensitive list" of products exempt from tariff reductions. The lists reflect industries or goods that member countries want to protect due to their domestic importance, such as agriculture, textiles, and essential goods.

3. **Rules of Origin:** SAFTA has established rules of origin, which specify that a certain percentage of value addition must be done within member countries to qualify for SAFTA benefits. This prevents the misuse of the agreement by importing goods from non-member countries and re-exporting them under SAFTA concessions.

4. **Trade Facilitation:** SAFTA encourages measures to streamline customs procedures, improve trade infrastructure, and reduce non-tariff barriers (NTBs) that hinder intra-regional trade.

5. **Technical Assistance:** SAFTA provides for technical assistance to support the Least Developed Countries within SAARC, helping them build capacity and benefit from the agreement.

Benefits:

1. **Increased Intra-Regional Trade:** By reducing tariffs, SAFTA promotes trade among South Asian countries, which historically had limited trade within the region despite their geographical proximity.

2. **Economic Growth and Employment:** Increased trade can stimulate growth, create jobs, and increase investment within member countries.

3. **Diversification of Exports:** SAFTA provides opportunities for countries to diversify their exports, reach new markets, and reduce dependency on non-SAARC trade partners.

4. **Improved Relations Among Members:** Economic cooperation through SAFTA can contribute to better political and diplomatic relations among South Asian nations, some of which have had contentious relations in the past.

Challenges:

1. **Political Tensions:** Political and historical conflicts, especially between India and Pakistan, have affected SAFTA's implementation and hindered trade flows.

2. **High Sensitive Lists:** Large sensitive lists limit the effectiveness of SAFTA by excluding many products from tariff reductions, thus reducing the scope of free trade.

3. **Non-Tariff Barriers:** Non-tariff barriers, such as complicated customs procedures, regulatory requirements, and infrastructure challenges, continue to impede trade between member countries.

4. **Economic Disparities:** The economic size and development levels of member countries vary greatly, with India's economy dominating the region. Smaller economies may struggle to compete and could be at risk of being overshadowed by larger players.

5. **Slow Progress on Tariff Reductions:** Some countries have been slow in reducing tariffs and complying fully with SAFTA provisions, affecting the potential for trade growth within the region.

Current Status and Future Outlook:

Although SAFTA has made some progress in increasing intra-regional trade, its full potential has yet to be realized due to the challenges listed above. Efforts to make SAFTA more effective include reducing the size of sensitive lists, addressing non-tariff barriers, and promoting greater political and economic cooperation among member countries.

For SAFTA to achieve its goals, member countries may need to commit to deeper economic integration, resolve political conflicts, and strengthen infrastructure to facilitate smoother trade. Enhanced cooperation could lead to a more robust economic region that leverages the collective strengths of South Asia for mutual benefit.

BRICS

BRICS is a political and economic alliance of five major emerging economies: Brazil, Russia, India, China, and South Africa. The BRICS grouping was created to promote cooperation, economic growth, and political influence among its members, which represent significant portions of the world's population, landmass, and global GDP. Each of these countries has a rapidly growing economy and is viewed as an influential player in global affairs, particularly in advocating for more balanced international economic governance and promoting multipolarity in world politics.

History and Evolution

Formation: The acronym "BRIC" was initially coined by economist Jim O'Neill in 2001 to describe the potential of Brazil, Russia, India, and China as emerging economic powers. The group formally came together in 2009, and in 2010, South Africa joined, making it BRICS.

Annual Summits: BRICS leaders hold annual summits to discuss key issues related to the economy, security, sustainable development, and global governance reform. The group also coordinates through various meetings and forums for finance ministers, central bank governors, trade ministers, and other key officials.

Objectives and Areas of Cooperation:

1. **Economic Cooperation:** BRICS aims to enhance trade, investment, and economic partnerships among its members. It also works to reduce dependency on traditional Western-dominated financial systems and establish alternative platforms for financial cooperation.

2. **Reforming Global Financial Institutions:** BRICS has been vocal in advocating for reforms in the International Monetary Fund (IMF), the World Bank, and other global financial institutions to give emerging economies a greater voice.

3. **Development Financing**: The BRICS countries have created financial institutions, such as the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA), to fund infrastructure projects and provide emergency financial support, reducing reliance on Western financial institutions.

4. **Multilateralism and Political Influence:** BRICS aims to promote a multi polar world order that emphasizes the sovereignty of nations and non-interference in domestic affairs. Members work to address issues like terrorism, climate change, cyber security, and poverty while advocating for balanced global governance.

5. **Cultural and Academic Exchange:** To foster people-to-people connections, BRICS promotes cooperation in fields like education, research, culture, tourism, and technology.

Initiatives and Institutions:

1. **New Development Bank (NDB):** Established in 2014, the NDB funds infrastructure and sustainable development projects in BRICS countries and other emerging economies. It provides an alternative to the World Bank and IMF, focusing on financing green and sustainable initiatives.

2. **Contingent Reserve Arrangement (CRA):** The CRA was created in 2015 as a $100 billion currency reserve pool that BRICS members can access in times of economic crisis. It serves as a safety net to address short-term balance-of-payments pressures.

3. **BRICS Payment System**: To reduce dependency on the U.S. dollar and protect against potential sanctions, BRICS countries are exploring a common payment system and trade settlement mechanisms using their national currencies.

4. **BRICS Summits and Forums:** BRICS conducts annual summits and regular forums for discussions on specific issues such as trade, technology, health, education, and security, enabling continuous collaboration across various sectors.

Economic and Political Significance

1. **Global Economic Influence:** BRICS countries together represent more than 40% of the world's population and about 25% of global GDP. As these economies continue to grow, BRICS aims to create a stronger economic bloc that can counterbalance traditional economic powers.

2. **Resource and Market Access:** BRICS countries have significant natural resources and large domestic markets, providing opportunities for economic integration and collaboration in fields such as energy, agriculture, and technology.

3. **Challenge to Western Dominance:** BRICS offers an alternative to Western-led economic and political frameworks, striving for a multi polar global order and promoting cooperation between emerging economies. This is especially important amid global shifts in power dynamics and geopolitical tensions.

Challenges Facing BRICS

1. **Economic and Political Differences:** The BRICS countries differ significantly in their political systems, economic structures, and growth levels. For instance, India and China have long-standing border disputes, and Russia and China have different approaches to global economic policy compared to Brazil and India. These differences can challenge BRICS' cohesion.

2. **Dependence on China**: China's economy is much larger than that of the other BRICS members, creating concerns about unequal influence within the group. Some members may feel that China's dominance could lead to imbalanced decision-making and reliance on Chinese leadership.

3. **Global Perceptions and Geopolitical Tensions:** The BRICS countries face varying degrees of opposition from Western countries, particularly the U.S., which views BRICS as a counterbalance to Western influence. Political conflicts, like Russia's involvement in Ukraine and India-China tensions, can also strain relationships within BRICS and affect the group's global image.

4. **Operational and Institutional Capacity**: Developing effective institutional mechanisms for BRICS initiatives, such as the New Development Bank and CRA, requires sustained coordination and resources. Limited capacity in areas like governance and regulatory alignment can impact the effectiveness of BRICS institutions.

The Future of BRICS

The future direction of BRICS may depend on its ability to overcome internal differences and strengthen economic cooperation. Potential areas of growth include.

- **Expansion of Membership:** There have been discussions about adding new members to the group, potentially enhancing its influence but also bringing new challenges in coordination.

- **Enhanced Intra-BRICS Trade:** Increasing trade within BRICS through shared payment systems and currency swaps could help reduce dependency on Western financial systems and promote economic resilience.

- **Technological Collaboration:** BRICS countries have discussed expanding partnerships in technology, digital finance, and cyber security, which could drive growth and innovation in key sectors.

BRICS is a unique grouping of emerging economies with the potential to reshape global economic and political dynamics. While facing significant challenges, its members remain committed to promoting a multi polar world and advocating for more balanced international economic governance.

IBSA

IBSA (India, Brazil, and South Africa) is a trilateral alliance of three large democratic, emerging economies from three different continents: Asia, South America, and Africa. Established in 2003 through the Brasilia Declaration, IBSA promotes South-South cooperation, economic development, social justice, and political collaboration. It serves as a forum for these three democracies to address common issues on the global stage and to advocate for a more equitable international order.

Objectives and Goals of IBSA

1. **Promote South-South Cooperation:** IBSA emphasizes solidarity and cooperation among developing nations, focusing on economic development, poverty reduction, and social equity.

2. **Advance Democratic Values and Human Rights:** As democracies, IBSA members aim to support democratic governance, respect for human rights, and the rule of law globally, and to address social issues like inequality and inclusivity.

3. **Influence Global Governance:** IBSA advocates for reforms in global institutions like the United Nations, the International Monetary Fund (IMF), and the World Bank to ensure fair representation for emerging economies and developing countries.

4. **Enhance Trade and Economic Ties:** The alliance promotes trade, investment, and economic cooperation among its members to stimulate growth and enhance economic resilience.

5. **Collaborate on Sustainable Development:** IBSA focuses on issues like environmental sustainability, renewable energy, and climate change, recognizing their significance for development and the global South.

Areas of Cooperation and Initiatives

1. **IBSA Fund:** One of IBSA's flagship initiatives is the IBSA Facility for Poverty and Hunger Alleviation (IBSA Fund), which finances sustainable development projects in least-developed countries (LDCs). Established in partnership with the United Nations, the fund supports projects in areas like food security, healthcare, education, and energy access.

2. **People-to-People Exchange**s: IBSA encourages cultural, academic, and scientific exchanges among its people. Initiatives include academic fellowships, youth forums, and cultural programs, aimed at strengthening bonds and mutual understanding.

3. **Development and Infrastructure Projects:** Through joint projects, IBSA seeks to improve infrastructure, technology, and transportation links among its members. This includes technology transfer, sharing best practices, and capacity-building.

4. **Climate and Environmental Initiatives:** IBSA countries collaborate on climate action and renewable energy projects, addressing environmental challenges unique to the global South. They work together at international forums, advocating for financial support to developing nations to help them achieve climate targets.

5. **Defence and Security:** IBSA has a growing focus on defence and maritime security, especially in the Indian Ocean Region and South Atlantic. The group seeks to enhance cooperation on anti-piracy efforts, disaster response, and maritime trade security.

Political and Economic Significance

1. **Multilateralism and Global Advocacy:** IBSA members share common positions on key international issues, often advocating for fair trade practices, multilateralism, and reforms in global governance.

2. **BRICS vs. IBSA:** While all three IBSA members are also part of BRICS (Brazil, Russia, India, China, and South Africa), IBSA has a unique focus on democratic values and South-South cooperation. This gives it a distinct identity separate from BRICS, which includes China and Russia, two non-democratic states.

3. **Economic Potential and Diversity:** Each IBSA country is a major economy in its region, with Brazil as the largest economy in South America, South Africa in Africa, and India in South Asia. Together, they represent a sizable market and potential for economic integration across three continents.

Challenges Facing IBSA

1. **Internal Economic and Political Differences:** IBSA members have differing economic priorities and structures, which sometimes pose challenges for integration and cooperation. Each country also faces unique domestic issues and political shifts that can impact their engagement in IBSA.

2. **Overlap with BRICS:** Some critics argue that IBSA's relevance is diminished due to the larger and more economically powerful BRICS group. However, IBSA's focus on democracy and equitable development for the global South differentiates it, although the overlap can sometimes dilute its distinct goals.

3. **Limited Institutional Framework**: Unlike BRICS, which has institutions like the New Development Bank, IBSA lacks a permanent institutional structure, which can limit its impact and operational effectiveness. Its projects, including the IBSA Fund, largely depend on the voluntary contributions of member countries.

4. **Geopolitical Challenges:** Each member faces its own regional geopolitical issues—India with China and Pakistan, Brazil with regional leadership dynamics in South America, and South Africa within African Union politics. These challenges can affect their international focus and commitment to IBSA initiatives.

Future Prospects and Outlook

The future of IBSA depends on how well it can leverage its strengths and distinct democratic identity to address shared challenges. Potential growth areas include.

- **Deepening Trade and Investment:** Strengthening trade ties and creating more economic incentives for IBSA members to invest in one another can help increase the group's relevance and foster closer economic integration.

- **Focus on Digital and Green Economy:** IBSA can expand its cooperation in the digital economy and renewable energy sectors, which are critical for sustainable development.

- **Strengthening the IBSA Fund:** Expanding the IBSA Fund's capacity and impact could enhance IBSA's credibility and effectiveness as a leader in South-South cooperation.

IBSA remains a unique trilateral forum committed to promoting democracy, equitable development, and South-South cooperation. While it faces challenges from geopolitical dynamics and overlapping memberships, its focus on common democratic values and support for the global South makes it a valuable player in shaping a more inclusive international order.

Very Short Type Question

1- What is custom union?

Ans- The concept of a custom union (or more commonly, a customs union) is an economic arrangement between two or more countries that aims to facilitate trade by removing tariffs and establishing common external trade policies for non-member countries. In the context of production and consumption, a customs union can impact both by affecting the flow of goods, services, and production inputs across member countries, influencing consumer choices, production costs, and economic interdependence.

Short Type Question

1- What is SAFTA?

Ans- The South Asian Free Trade Area (SAFTA) is an agreement aimed at promoting and enhancing economic cooperation and trade among the member countries of the South Asian Association for Regional Cooperation (SAARC). Signed in 2004 and effective since 2006, SAFTA seeks to reduce trade barriers, improve market access, and encourage regional economic integration within South Asia.

2- What are the objective of IBSA?

Ans- 1. **Promote South-South Cooperation:** IBSA emphasizes solidarity and cooperation among developing nations, focusing on economic development, poverty reduction, and social equity.

2. **Advance Democratic Values and Human Rights:** As democracies, IBSA members aim to support democratic governance, respect for human rights, and the rule of law globally, and to address social issues like inequality and inclusivity.

3. **Influence Global Governance:** IBSA advocates for reforms in global institutions like the United Nations, the International Monetary Fund (IMF), and the World Bank to ensure fair representation for emerging economies and developing countries.

4. **Enhance Trade and Economic Ties:** The alliance promotes trade, investment, and economic cooperation among its members to stimulate growth and enhance economic resilience.

Long Type Question

1- Discuss about the challenges of IBSA.

Ans- IBSA (India, Brazil, and South Africa) is a trilateral alliance of three large democratic, emerging economies from three different continents: Asia, South America, and Africa. Established in 2003 through the Brasilia Declaration, IBSA promotes South-South cooperation, economic development, social justice, and political collaboration. It serves as a forum for these three democracies to address common issues on the global stage and to advocate for a more equitable international order.

Challenges Facing IBSA

1. **Internal Economic and Political Differences:** IBSA members have differing economic priorities and structures, which sometimes pose challenges for integration and cooperation. Each country also faces unique domestic issues and political shifts that can impact their engagement in IBSA.
2. **Overlap with BRICS:** Some critics argue that IBSA's relevance is diminished due to the larger and more economically powerful BRICS group. However, IBSA's focus on democracy and equitable development for the global South differentiates it, although the overlap can sometimes dilute its distinct goals.

3. **Limited Institutional Framework**: Unlike BRICS, which has institutions like the New Development Bank, IBSA lacks a permanent institutional structure, which can limit its impact and operational effectiveness. Its projects, including the IBSA Fund, largely depend on the voluntary contributions of member countries.

4. **Geopolitical Challenges:** Each member faces its own regional geopolitical issues—India with China and Pakistan, Brazil with regional leadership dynamics in South America, and South Africa within African Union politics. These challenges can affect their international focus and commitment to IBSA initiatives.

2- Discuss about the challenges of BRICS.

Ans- BRICS is a political and economic alliance of five major emerging economies: Brazil, Russia, India, China, and South Africa. The BRICS grouping was created to promote cooperation, economic growth, and political influence among its members, which represent significant portions of the world's population, landmass, and global GDP. Each of these countries has a rapidly growing economy and is viewed as an influential player in global affairs, particularly in advocating for more balanced international economic governance and promoting multipolarity in world politics.

Challenges Facing BRICS

1. **Economic and Political Differences:** The BRICS countries differ significantly in their political systems, economic structures, and growth levels. For instance, India and China have long-standing border disputes, and Russia and China have different approaches to global economic policy compared to Brazil and India. These differences can challenge BRICS' cohesion.

2. **Dependence on China**: China's economy is much larger than that of the other BRICS members, creating concerns about unequal influence within the group. Some members may feel that China's dominance could lead to imbalanced decision-making and reliance on Chinese leadership.

3. **Global Perceptions and Geopolitical Tensions:** The BRICS countries face varying degrees of opposition from Western countries, particularly the U.S., which views BRICS as a counterbalance to Western influence. Political conflicts, like Russia's involvement in Ukraine and India-China tensions, can also strain relationships within BRICS and affect the group's global image.

4. **Operational and Institutional Capacity**: Developing effective institutional mechanisms for BRICS initiatives, such as the New Development Bank and CRA, requires sustained coordination and resources. Limited capacity in areas like governance and regulatory alignment can impact the effectiveness of BRICS institutions.

Unit-IV

Balance of Payments (BOPs)

The Balance of Payments (BOPs) is an accounting statement that records all economic transactions between a country and the rest of the world over a specific period, typically a quarter or a year. It provides a comprehensive summary of a nation's financial dealings, encompassing trade, investment, income flows, and financial transfers. The BOP is essential for understanding a country's economic position, indicating whether it is a net lender or borrower, and assessing its financial stability.

Components of the Balance of Payments

The BOPs is divided into three main accounts:

1. **Current Account:**

Trade Balance (Goods and Services): Records exports and imports of goods (like machinery, oil, cars) and services (such as tourism, financial services). A surplus in this balance means the country exports more than it imports, while a deficit means it imports more.

Income Receipts and Payments: Includes earnings on investments (such as dividends and interest payments) and compensation to employees working abroad or for foreign firms.

Current Transfers: These are unilateral transfers with no returns, like foreign aid, remittances from migrant workers, and gifts.

2. **Capital Account:**

Transfers of Capital Assets: Records capital transfers, such as debt forgiveness, inheritance taxes, and the transfer of ownership on fixed assets.

Non-Produced, Non-Financial Assets: Includes intangible assets, like patents and copyrights, as well as land purchases by foreign entities.

3. **Financial Account:**

Direct Investment: Foreign direct investment (FDI), where entities acquire substantial ownership in foreign businesses or assets (typically over 10% ownership), including mergers and acquisitions.

Portfolio Investment: Involves buying stocks, bonds, or other financial assets in foreign countries without significant influence or control over management.

Other Investments: Includes various forms of financial transactions like loans, currency deposits, and trade credit.

Reserve Assets: The central bank's holdings of foreign currencies, gold, and special drawing rights (SDRs) which can be used to manage the exchange rate and maintain stability.

Balance of Payments Identity

The BOP must balance, following the basic accounting identity:

Current Account +Capital Account+ Financial Account+ Errors and Omissions= 0

If there is a surplus in one account, there must be a deficit in another. For instance, a country with a current account deficit (imports > exports) will often have a corresponding surplus in its financial account (borrowing from abroad or receiving investments).

Concepts in BOP Analysis

1. BOP Surplus and Deficit:

A BOP Surplus occurs when inflows exceed outflows, indicating the country is a net lender to the world.

A BOP Deficit occurs when outflows exceed inflows, showing that the country is a net borrower.

2. Current Account Deficit and Surplus:

A Current Account Surplus implies the country exports more goods and services than it imports, or it has significant net income and transfers from abroad.

A Current Account Deficit indicates higher imports than exports or substantial income and transfer outflows. Persistent deficits can lead to increased foreign debt or a depreciation of the domestic currency.

3. **Exchange Rates and BOP:** The BOP affects and is affected by the exchange rate. A currency's appreciation or depreciation can influence exports and imports, impacting the BOP.

4. **Autonomous and Accommodating Transactions:**

Autonomous Transactions are driven by profit and income motives, like trade and investment, and reflect underlying economic trends.

Accommodating Transactions are adjustments made to balance the BOP, such as central bank interventions in foreign exchange markets.

Importance of the Balance of Payments

1. **Economic Stability and Policy:** A balanced BOP is often essential for a country's financial stability. Persistent imbalances (large deficits or surpluses) can lead to economic adjustments, like currency fluctuations, and may require government intervention.

2. **Exchange Rate Management:** The BOP can influence exchange rate policies. For instance, a deficit may prompt the central bank to use reserves or adjust interest rates to maintain currency stability.

3. **Debt and Foreign Investment Monitoring:** BOP data helps in assessing a country's dependence on foreign capital, the sustainability of its foreign debt, and the health of its investment climate.

4. **Competitiveness and Trade:** A current account surplus can indicate competitiveness in global markets, while a deficit might prompt policies aimed at boosting exports or managing imports.

Adjustment mechanism of balance of payment

The Balance of Payments (BOP) Adjustment Mechanism refers to the various methods and policies a country uses to correct imbalances in its BOP, particularly a current account deficit or surplus. When a country has a persistent BOP deficit (spending more on foreign goods and services than it earns), it must adjust to avoid excessive debt or currency devaluation. Similarly, countries with a persistent surplus may face pressures to appreciate their currency or increase spending to support global economic stability.

Some BOP Adjustment Mechanism

1. Exchange Rate Adjustments:

- Flexible Exchange Rates: Under a flexible exchange rate system, the currency value fluctuates based on supply and demand. For a country with a BOP deficit, the currency will depreciate, making exports cheaper and imports more expensive, which can improve the trade balance. Conversely, a BOP surplus might lead to an appreciation, reducing exports but increasing imports.
- Fixed Exchange Rates: In a fixed or pegged exchange rate system, the government or central bank intervenes in the foreign exchange market to maintain a stable exchange rate. This may involve buying or selling foreign reserves to support the currency.

2. Monetary Policy Adjustments:

Central banks can use interest rate changes to address BOP imbalances. For instance, in a deficit situation, raising interest rates can attract foreign investment, improving the financial account and stabilizing the currency. However, higher interest rates might slow economic growth.

In a surplus situation, lowering interest rates can discourage excessive capital inflows and stimulate domestic spending and investment.

3. Fiscal Policy Adjustments:

- Reduction of Government Spending: For a country facing a BOP deficit, reducing government spending can decrease the demand for imports and improve the BOP.
- Increased Taxes: Higher taxes can reduce disposable income, leading to lower import demand and improving the current account.
- Expansionary Policies for Surplus: Countries with a surplus may increase government spending or cut taxes to stimulate demand for imports, thus reducing the surplus.

4. Direct Controls and Trade Policies:

- Tariffs and Quotas: Imposing tariffs (taxes on imports) or setting quotas (limits on the volume of imports) can reduce import demand, helping to correct a BOP deficit. However, these policies can strain international relations and may violate trade agreements.
- Export Incentives: Governments may provide subsidies or tax breaks to export industries, boosting exports and improving the BOP.
- Capital Controls: Countries may implement capital controls (restrictions on foreign exchange transactions) to manage the flow of capital and stabilize the currency. For example, limiting foreign currency purchases can prevent excess capital outflow.

5. Income and Price Adjustments (Automatic Mechanisms):

- Income Changes: A BOP deficit can lead to a reduction in national income, as spending on imports drains money out of the economy. Lower Income can reduce import demand, gradually correcting the deficits.
- Price Adjustments: Inflation and deflation can also play roles in the BOP adjustment. A country with a BOP deficit might experience inflation if it continues to import more than it exports, making domestic goods more expensive and imports less attractive. This price adjustment can help bring the BOP back into balance over time.

6. Use of Foreign Exchange Reserves:

Central banks hold foreign exchange reserves to help manage BOP adjustments. For instance, a central bank can sell foreign currency reserves to support the value of its domestic currency in a deficit situation or buy reserves to prevent currency appreciation in a surplus situation.

7. Structural Reforms:

- Economic Diversification: A country may adjust its BOP by restructuring its economy to reduce dependence on imported goods and services. This may involve investing in domestic industries, improving productivity, and enhancing competitiveness.
- Improving Export Competitiveness: Structural policies aimed at improving the competitiveness of export industries can increase export revenues, helping to balance the BOP.

Adjustment of the balance of payments (BOP) through variations in the exchange rate

Adjustment of the balance of payments (BOP) through variations in the exchange rate is a widely used mechanism, particularly under a floating exchange rate system. Exchange rate adjustments can help a country address a BOP deficit or surplus by influencing the relative prices of exports and imports. Here's a breakdown of how exchange rate adjustments work to balance the BOP:

How Exchange Rate Adjustments Work?

1. **Depreciation to Correct a BOP Deficit:**

A country with a BOP deficit (where imports exceed exports) might allow its currency to depreciate. Depreciation means the domestic currency loses value relative to foreign currencies.

- Impact on Exports: Depreciation makes the country's exports cheaper for foreign buyers, potentially increasing the demand for exports.
- Impact on Imports: At the same time, depreciation makes imports more expensive for domestic consumers, potentially reducing import demand.
- Improvement in Trade Balance: By boosting exports and reducing imports, a currency depreciation can improve the current account and help reduce the BOP deficit.

2. **Appreciation to Correct a BOP Surplus:**

- A country with a persistent BOP surplus might allow its currency to appreciate, where the domestic currency gains value relative to foreign currencies.
- Impact on Exports: Appreciation makes exports more expensive for foreign buyers, potentially reducing export demand.
- Impact on Imports: Appreciation makes imports cheaper for domestic consumers, potentially increasing import demand.
- Reduction in Trade Surplus: By reducing exports and increasing imports, a currency appreciation can help reduce the current account surplus, balancing the BOP.

Mechanisms in Fixed vs. Flexible Exchange Rate Systems

- **Flexible (Floating) Exchange Rate System:** In a floating exchange rate system, the exchange rate is determined by market forces—demand and supply of the currency. A BOP deficit or surplus automatically triggers exchange rate adjustments. For instance, a deficit may lead to depreciation, while a surplus may lead to appreciation, helping to balance the BOP.
- **Fixed (Pegged) Exchange Rate System:** Under a fixed exchange rate system, the central bank intervenes in the currency market to maintain a set exchange rate. If the country faces a BOP deficit, the central bank might deplete its foreign currency reserves to maintain the peg. Alternatively, in the case of a BOP surplus, the central bank might buy foreign currency to prevent appreciation.

Devaluation

Devaluation refers to a deliberate reduction in the value of a country's currency relative to other currencies. It is a policy decision typically made by the government or central bank.

Devaluation occurs in a fixed or pegged exchange rate system, where the currency is tied to another currency or a basket of currencies, and the government actively controls the exchange rate.

Purpose and Goals:

- Correct BOP Deficits: Devaluation is often used to address a balance of payments deficit by making exports cheaper for foreign buyers and imports more expensive for domestic consumers.
- Boost Economic Growth: By making exports more attractive, devaluation can stimulate demand for domestic products, potentially leading to economic growth.
- Reduce External Debt Burden: In some cases, countries devalue to make their foreign debt relatively easier to pay off by increasing foreign currency earnings from exports.

Impacts of Devaluation

- Trade Balance Improvement: Devaluation makes exports cheaper and imports more expensive, which can improve the trade balance if demand is sufficiently responsive to price changes (as per the Marshall-Lerner condition).
- Inflationary Pressure: Devaluation can increase the cost of imported goods, leading to higher inflation, especially in economies heavily reliant on imports for essential goods like fuel and food.
- J-Curve Effect: Initially, the trade balance may worsen (due to contract lags and existing import commitments) before it improves, following what is known as the J-Curve effect.

Comparison of Devaluation and Exchange Rate Adjustment

Devaluation and exchange rate adjustment are related concepts but differ in their application and implications, especially depending on the type of exchange rate system a country follows. Both mechanisms affect the value of a currency and are used to influence the balance of payments (BOP) by making exports more competitive and imports more expensive.

Aspect	Devaluation	Exchange rate adjustment

System	Fixed/ pegged exchange rate	Floating/ managed float exchange rate
Control	Government or Central bank decision	Market- driven (or occasionally Central Bank intervention)
Adjustment	Sudden, discrete change	Continuous, gradual change in response to market forces
Purpose	Improve trade balance, correct BOP deficits	Allows automatic BOP adjustments
Impact on inflation	Often significant inflationary pressure	Possible inflation, but generally more gradual

Elasticity Approach to the Balance of Payments (BOP)

The Elasticity Approach to the Balance of Payments (BOP) focuses on the responsiveness of the quantity demanded for exports and imports to changes in their prices. This approach is particularly important in understanding how exchange rate adjustments can influence a country's BOP situation, particularly in relation to trade balance improvements after currency devaluation or depreciation.

Concepts of the Elasticity Approach

1. **Price Elasticity of Demand:**

Price Elasticity of Demand (PED) measures how much the quantity demanded of a good responds to a change in its price.

For exports, if demand is elastic, a decrease in the price (e.g., due to currency depreciation) will result in a more than proportional increase in the quantity of exports demanded.

For imports, if demand is elastic, an increase in price (e.g., due to currency depreciation) will lead to a more than proportional decrease in the quantity of imports demanded.

2. **Marshall-Lerner Condition:**

The elasticity approach is often associated with the Marshall-Lerner Condition, which states that a currency depreciation will improve the trade balance (and thus the BOP) if the combined price elasticities of demand for exports and imports are greater than one ($|Ex| + |Em| > 1$), where:

Ex = Price elasticity of demand for exports

Em = Price elasticity of demand for imports

If this condition is met, the decrease in export prices due to depreciation will lead to a significant increase in export volume, while the increase in import prices will cause a substantial decrease in import volume.

3. **Short-run vs. Long-run Effects:**

Short-Run Effects: After a currency devaluation, the initial response may be a worsening of the trade balance (the J-Curve effect). This occurs because contracts for imports and exports may take time to adjust, and consumers may have immediate commitments to import purchases.

Long-Run Effects: Over time, as prices adjust and consumers and businesses respond to the new price levels, the volume of exports may increase, and imports may decrease, leading to an improvement in the trade balance.

Application of the Elasticity Approach

1. **Analysis of Trade Balance:** The elasticity approach allows policymakers to analyse how effective a currency depreciation will be in correcting a BOP deficit based on the elasticities of their major trading partners.

   Countries with more elastic demand for their exports are likely to benefit more from currency depreciation, as they can sell larger quantities at lower prices.

2. **Estimation of Elasticities:** Empirical estimation of price elasticities for exports and imports is essential for applying the elasticity approach effectively. Studies often use historical data to determine how sensitive trade volumes are to price changes.
3. **Policy Implications:** Understanding the elasticity of demand can help policymakers design appropriate exchange rate policies. For example, if a country anticipates that its trade balance will not improve significantly following devaluation (i.e., the elasticities are low), it may need to consider additional measures such as promoting export diversification or implementing structural reforms.

Limitations of the Elasticity Approach

1. Variability of Elasticities: Elasticities can vary significantly over time and across different products and markets, making it challenging to make accurate predictions based on past data.
2. Time Lags: The adjustment process can be slow, and short-term dynamics may not accurately reflect long-term trends due to consumer habits and contracts.
3. Other Factors Influencing Trade: The approach primarily focuses on price changes, neglecting other factors like income levels, consumer preferences, and global economic conditions that also impact trade flows.
4. J-Curve Effect: The short-term worsening of the trade balance can complicate the analysis, as it might mask the longer-term improvements that follow.

Very Short Type Question:

1- Define Balance of Payments.

Ans- The Balance of Payments (BOPs) is an accounting statement that records all economic transactions between a country and the rest of the world over a specific period, typically a quarter or a year. It provides a comprehensive summary of a nation's financial dealings, encompassing trade, investment, income flows, and financial transfers. The BOP is essential for understanding a country's economic position, indicating whether it is a net lender or borrower, and assessing its financial stability.

Short Type Question:

1- Distinguish between balance of current account and balance of capital account.

Ans- **Current Account:**

Trade Balance (Goods and Services): Records exports and imports of goods (like machinery, oil, cars) and services (such as tourism, financial services). A surplus in this balance means the country exports more than it imports, while a deficit means it imports more.

Capital Account:

Transfers of Capital Assets: Records capital transfers, such as debt forgiveness, inheritance taxes, and the transfer of ownership on fixed assets.

Non-Produced, Non-Financial Assets: Includes intangible assets, like patents and copyrights, as well as land purchases by foreign entities.

2- What is the importance of balance of payments.

Ans- **Importance of the Balance of Payments**

1. **Economic Stability and Policy:** A balanced BOP is often essential for a country's financial stability. Persistent imbalances (large deficits or surpluses) can lead to economic adjustments, like currency fluctuations, and may require government intervention.
2. **Exchange Rate Management:** The BOP can influence exchange rate policies. For instance, a deficit may prompt the central bank to use reserves or adjust interest rates to maintain currency stability.
3. **Debt and Foreign Investment Monitoring:** BOP data helps in assessing a country's dependence on foreign capital, the sustainability of its foreign debt, and the health of its investment climate.
4. **Competitiveness and Trade:** A current account surplus can indicate competitiveness in global markets, while a deficit might prompt policies aimed at boosting exports or managing imports.

Long Type Question

1- Critically examine elasticity approach to balance of payments.

Ans- The Elasticity Approach to the Balance of Payments (BOP) focuses on the responsiveness of the quantity demanded for exports and imports to changes in their prices. This approach is particularly important in understanding how exchange rate adjustments can influence a country's BOP situation, particularly in relation to trade balance improvements after currency devaluation or depreciation.

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PART-2

UNIT-V

Heckscher-Ohlin Theorem

Bertil Ohlin in his celebrated book "Inter-regional and International Trade (1933) censured the classical Hypothesis of international trade and defined the Common Balance or Factor Endowment or Factor Proportion Hypothesis of international trade. It is too known as the Modern Theory of International Trade or the Heckscher – Ohlin (H.O.) Theory.

The H.O. hypothesis states that the primary determinant is the relative accessibility of factor endowments and factor cost. Districts or nations have diverse factor endowments and factor cost. "A few nations have much capital, others have much work. The hypothesis presently says that nations that are wealthy in capital will trade capital-intensive products and nations that have much work will send out labour-intensive products. Hence the fundamental cause of exchange between nations is the difference in costs of commodities based on relative factor endowments and factor cost.

ASSUMPTIONS-

We talk about its assumptions:

1. It is a two-by-two-by-two model.

2. There is perfect competition in product as well as figure markets.

3. There is full work of resources.

4. There are quantitative contrasts in calculate gifts in diverse locales, but subjectively they are homogeneous

5. The generation capacities of the two commodities have diverse calculate force, work seriously and capital-intensive

6. Calculate forces are non-reversible

7. There are no transport costs.

The deficiency of supply in connection to demand is fundamental for exchange between two areas. Commodities which utilize huge amounts of rare variables are imported since their costs are high whereas those utilizing copious variables are traded since their costs are low.

The H-O hypothesis is clarified in terms of two definitions-

(1) Factor Abundance in terms of Factor Price.
(2) Factor Abundance in Physical Term.

The Leontief Paradox

The to begin with comprehensive endeavor to confirm the Heckscher-Ohlin show was made by Wassily Leontief in 1953. The Heckscher-Ohlin hypothesis is states that generally capital-abundant nation will send out the generally capital-intensive commodity, and it will consequence the commodity in whose production generally expansive sums of its generally rare calculate work are required.

Leontief in his consider come to the confusing conclusion that the Joined together States which has a moderately huge sum of capital and a generally little sum of work in connection to the rest of the world, exported labour-intensive commodity and imported capital-intensive commodity. So the result was known as the Leontief Paradox.

Post-Heckscher Ohlin Theories of Trade

Technological Gap Model

The Ricardian and Heckscher-Ohlin hypotheses are based on the presumption that innovation is the same in all trading nations. As such, they do not dissect the impact of innovative alter on exchange. M.V. Posner' in an article in 1961 dissected the impact of innovation on exchange.

Posner respects Technological changes as a ceaseless handle which impacts the design of International Trade. A technological advancement in the shape of production of a unused great in one nation leads to the imitation gap and the demand gap in the other nation. The degree to which trade take put between the two nations depends on the net impact of the demand lag and the imitation gap.

Assumptions-

Posner's hypothesis is based on the taking after assumptions:

1. There are two countries.

2. There is comparative factor endowment in both.

3. Demand conditions are comparable in both.

4. Pre-trade factor price proportions are comparable in both.

5. Innovations vary in both countries.

The Krugman Model

Paul Krugman presents the accomplishments of New Trade and New Growth Hypothesis into the conventional area hypothesis, and puts forward a modern area hypothesis which is called New Economic Geography. Based on this hypothesis and his accomplishments in the New Trade Hypothesis, Krugman won the Nobel Prize in 2008.

Krugman characterized the New Economic Geography as the area hypothesis of production, fair as the concept of the classical area hypothesis, which is proposed to clarify the component of arrangement and advancement of the financial spatial structure.

New Economic Geography is based on the primary thought that there exists different harmony state in the advancement of economic spatial structure.

The primary components:

1. Economies of scale (expanding return to scale).
2. The plausibility of item separation: firms can costlessly separate their items (each item is a unused one)→ monopoly power.
3. Imperfect competition (monopolistic competition): each firm is little sufficient to influence total variables
4. Free entry

Trade between economies with comparable figure blessings, the part of a domestic showcase in deciding exchange patterns.

Effect of Growth on International Trade

Economic Development has production and consumption impacts on worldwide trade.

Production Effect-

The Production impacts of figure aggregation or development accentuate the conduct of household production of exportable. An expanded production of exportable tends to increment the volume of exchange, and an expanded production of importable tends to diminish the volume of exchange.

Johnson has classified the production impacts of calculate development into five types.

1. Growth is unbiased if it increments the production of exportable and importable merchandise in the same extent.

2. It is anti-trade-biased or import-biased if it increments the production of importable in more noteworthy extent than the production of exportable in more prominent proportion.

3. It is pro-trade-biased or export-biased or ultra-export-biased if development decreases the household production of importable.

4. It is ultra-pro-trade-biased or ultra-export-biased if development diminishes the residential production of importable.

5. It is ultra-anti-trade-biased or ultra-import-biased if it decreases the production of exportable.

Assumptions-

This examination is based on the taking after assumptions:

1. There are two nations A and B.

2. There are two commodities X and Y.

3. There are two components of production labour and capital

4. The amounts of work and capital increment with growth.

5. Universal terms of exchange are constant. 6. There is no alter in technology

Consumption Effect-

The Consumption impacts of calculate development underscore the conduct of household consumption of Importable. An expanded consumption of importable tends to increment the volume of exchange and an expanded consumption of exportable tends to diminish the volume of exchange.

Johnson has classified the consumption impacts of calculate development into five sorts on the consumption side-

1. Growth is impartial if it increments all demand for importable in the same extent as the increment in the demand for exportable.

2. Growth Import-biased if is increments the demand for importable in lesser extent than it increments demand for exportable.

3. It is pro-trade-biased (or export-biased) if it increments the demand for importable in more noteworthy professional- parcel than it increments the demand for exportable.

4. It is ultra-pro-trade-biased (or ultra-export-biased) if it increments the demand for importable absolutely.

5. Ultra-anti-trade-biased (or ultra-import-biased) if it decrement the demand for importable absolutely.

Export Pessimism

During 1950's numerous financial specialists like Prebisch, Myrdal, Artist and Nurkse recognized that the trades of LDC's amid the 20th century were very frail in differentiate to buoyancy of sends out amid the 19th century. Numerous LDC's begun figuring it out that exchange was disadvantageous to them or maybe than being an 'engine of growth'. The negativity around request for the sends out of the LDC's in the markets of the created nations is named as trade pessimism.

Jagdish Bhagwati recognized two unmistakable shapes of send out cynicism.

1. One shape of trade negativity won amid the period from the World War II to the mid 1960's.
2. second variation won in 1980's.

The to begin with shape of trade negativity was looked for to be clarified by Prebisch, Singer and Nurkse.

Prebisch and Singer related the wonder of send out cynicism on the portion of LDC's to the mainstream weakening in the terms of exchange of essential items, the chief sends out of the LDC's vis-a-vis made products.

Nurkse's adaptation of trade cynicism is concerned, moo development of sends out of LDC's is due to low-income versatility of request for a few rural items in the economies of created countries.

Immiserising Growth

The hypothesis of immiseriding development relates to disintegration in terms of exchange of the nation encountering development. Edgeworth was the to begin with financial analyst to recommend the plausibility that financial development may lead to the compounding of the terms of exchange of the developing nation to such a huge degree that the pick up in yield coming about from development may be wiped out by the antagonistic terms of exchange. Jagdish Bhagwati calls this wonder "immiserising ". “Economic extension increments yield which, In any case, might lead a adequate weakening in the terms of exchange to counterbalanced the useful impact of extension and decrease the genuine wage of developing country."

Assumptions-

The hypothesis of immiserising development expect that

(1) There are two nations A and B

(2) There are two commodities X and Y

(3) There is full work of resources.

(4) There is impartial specialized progress.

(5) Development takes put in the inexhaustible calculate labour

Gains from Trade

Meaning-

The Gain from Trade allude to net benefits or increments in products that a nation gets by exchanging with other nations. It moreover implies the increment in the utilization of a nation coming about from trade of products and specialization in generation through universal trade.

Types-

Economists as a rule recognize between potential and actual gain from trade.

1. **Potential Gain From Trade-**

The potential Gain from Trade is the contrast in Cost proportions of creating two commodities in two nations. If X and Y are two commodities and A and B two nations, at that point the potential pick up can be communicated as

$$G\ p=\left[\frac{Cx}{Cy}\right]A-\left[\frac{Cx}{Cy}\right]B$$

Where G_P, is the potential Gain from Trade, C_x is the taken a toll per unit of X, C_y is the taken a toll per unit of Y and the subscripts A and B alludes to the two Countries

2. **Actual Gain From trade-**
   The Actual Gain from Trade is the contrast in Price proportions of two commodities in the two exchanging nations. Assuming X and Y as two commodities and A and B as two nations, the genuine pick up can be appeared thus,

$$G_A=\left[\frac{Px}{Py}\right]A-\left[\frac{Px}{Py}\right]B$$

Where G_A is the Actual Gain from Trade, P_X is per unit Price of X and P_y is per unit Price of Y.

Factors Determining Gain from Trade-

1. Difference in Fetched Ratio
2. Reciprocal Demand
3. Level of Income
4. Terms of Trade
5. Productive Efficiency
6. Technological Condition
7. Size of Country

Very Short Type Question:

1- Define export pessimism.

Ans- During 1950's numerous financial specialists like Prebisch, Myrdal, Artist and Nurkse recognized that the trades of LDC's amid the 20th century were very frail in differentiate to buoyancy of sends out amid the 19th century. Numerous LDC's begun figuring it out that exchange was disadvantageous to them or maybe than being an 'engine of growth'. The negativity around request for the sends out of the LDC's in the markets of the created nations is named as trade pessimism.

Short Type Question:

1- What is the Leontief paradox?

Ans- The to begin with comprehensive endeavor to confirm the Heckscher-Ohlin show was made by Wassily Leontief in 1953. The Heckscher-Ohlin hypothesis is states that generally capital-abundant nation will send out the generally capital-intensive commodity, and it will consequence the commodity in whose production generally expansive sums of its generally rare calculate work are required.

Leontief in his consider come to the confusing conclusion that the Joined together States which has a moderately huge sum of capital and a generally little sum of work in connection to the rest of the world, exported labour-intensive commodity and imported capital-intensive commodity. So the result was known as the Leontief Paradox.

2- Discuss about the assumption of Heckscher – Ohlin theory of international trade.

Ans- **ASSUMPTIONS-**

1. It is a two-by-two-by-two model.

2. There is perfect competition in product as well as figure markets.

3. There is full work of resources.

4. There are quantitative contrasts in calculate gifts in diverse locales, but subjectively they are homogeneous

5. The generation capacities of the two commodities have diverse calculate force, work seriously and capital-intensive

6. Calculate forces are non-reversible

7. There are no transport costs.

3- What is technical gap model?

Ans- The Ricardian and Heckscher-Ohlin hypotheses are based on the presumption that innovation is the same in all trading nations. As such, they do not dissect the impact of innovative alter on exchange. M.V. Posner' in an article in 1961 dissected the impact of innovation on exchange.

Posner respects Technological changes as a ceaseless handle which impacts the design of International Trade. A technological advancement in the shape of production of a unused great in one nation leads to the imitation gap and the demand gap in the other nation. The degree to which trade take put between the two nations depends on the net impact of the demand lag and the imitation gap.

Long Type Question:

1- Discuss about the various factors determining the gains from trade.

Ans- The Gain from Trade allude to net benefits or increments in products that a nation gets by exchanging with other nations. It moreover implies the increment in the utilization of a nation coming about from trade of products and specialization in generation through universal trade.

Types-

Economists as a rule recognize between potential and actual gain from trade.

1. **Potential Gain From Trade-**

The potential Gain from Trade is the contrast in Cost proportions of creating two commodities in two nations. If X and Y are two commodities and A and B two nations, at that point the potential pick up can be communicated as

$$G\,p = \left[\frac{Cx}{Cy}\right] A - \left[\frac{Cx}{Cy}\right] B$$

Where G_P, is the potential Gain from Trade, C_x is the taken a toll per unit of X, C_y is the taken a toll per unit of Y and the subscripts A and B alludes to the two Countries

2. **Actual Gain From trade-**

The Actual Gain from Trade is the contrast in Price proportions of two commodities in the two exchanging nations. Assuming X and Y as two commodities and A and B as two nations, the genuine pick up can be appeared thus,

$$G_A = \left[\frac{Px}{Py}\right] A - \left[\frac{Px}{Py}\right] B$$

Where G_A is the Actual Gain from Trade, P_X is per unit Price of X and P_y is per unit Price of Y.

Factors Determining Gain from Trade-

1. Difference in Fetched Ratio
2. Reciprocal Demand
3. Level of Income
4. Terms of Trade
5. Productive Efficiency
6. Technological Condition
7. Size of Country

UNIT-VI

International Financial Institutions

International monetary fund (IMF)

IMF is an agency of United Nations. It's head quarter is situated in Washington DC. It is funded by 190 member countries. It is supporter of Exchange Rate stability and global lender of last resort to member countries.

It's objective is based on financial stability, strengthen the International Trade, reduce poverty, sustainable Economic growth and generation of employment.

It is came into force in July of 1944 at Bretton Woods Conference in which John Maynard Keynes and Harry Dexter white contribute their ideas. It plays a main role in the Management of BOP i.e. Balance of Payment and International Financial Crises.

Function :- IMF works to boost global growth and economic stability.

Primary Functions are :-

1. To Provide short terms capital to maintain the Balance of Payment.
2. To supervise the fixed exchange rate positions between member countries.
3. To provide capital investments for infrastructure.

BENEFITS :-

IMF is member can have share the information on policies (Economic) financial assistance in payment difficulty and opportunities for investment and International Trade.

IMF's Fund come from –

1. Member Quotas
2. Multi lateral
3. Bi lateral Borrowing agreements

IMF's Currency is SDR i.e Special Drawing Rights :- It includes

5 Currencies :-

1. US Dollar
2. Euro
3. Chinese Renminbi
4. Japanese Yen
5. Pound Sterling

WORLD BANK (WB)

The Moment World War harmed economies of the most of the nations and totally separated the multilateral exchange and had caused gigantic annihilation of life and property. In 1945, it was figured it out to concentrate on remaking these war influenced economies. Total member country of World Bank is 190 (Acc. To October 2021).

IBRD was set up in December 1945 with the IMF on the premise of the proposal of the Bretton Wood Conference. That is the reason why IMF and IBRD are called 'Bretton Wood Twins'. IBRD begun working in June 1946. IBRD and its relate educate as a bunch are known as the World Bank. World Bank and IMF are complementary educate. The World Bank is the Bunch of five constituents of IBRD, IDA, IFC, MIGA and ICSID. India is a part of four constituents of the World Bank Bunch (IBRD, IDA, IFC and MIGA) but not the part of ICSID.

Full shape of all the constituents is-

1. IBRD: International Bank For Reconstruction And Development.

2. IDA: International Development association.

3. IFC: International Finance Corporation.

4. MIGA: Multiliteral Investment Gaurentee Agency.

5. ICSID: International Centre For the Settlement of Investment Disputes.

IDA- IDA is a relate institution of World Bank known as delicate credit window of World Bank. IDA was built up on September 1960. It kept its enrollment open to all. IDA gives credits to its part and no intrigued is charged on these long term credits, that's why it is call Soft Loan Window since it gives delicate advance to the destitute nation of the world.

IFC-World Bank built up IFC in 1956. The fundamental work of IFC is to guarantee the budgetary back to private division in creating nations. It initiated capitalist nation to contribute in creating nations.

MIGA- It is a worldwide money related institution which offers political hazard protections and credit improvement ensures. MIGA was set up in 1988. These ensures offer assistance financial specialists to ensure remote coordinate speculations against political and non-commercial dangers in creating countries.

ICSID-It is a world biggest driving institution given to venture debate. ICSID was built up in 1966 by the Tradition on the Settlement of Speculation Debate between States and Nationals of Other States.

Objectives of World Bank-

1. To give long-run capital to part nations for financial reproduction and advancement.

2. To initiate long-run capital Venture for guaranteeing BOP balance and adjusted improvement of worldwide exchange.

3. To advance capital speculation in part nations

4. To give ensure for credits allowed to little and expansive units and other ventures of part countries.

5. To guarantee the usage of improvement ventures so as to bring almost a smooth transference from a war-time to peace economy.

Asian Development Bank (ADB)

ADB was set up in Dec 1966 on the suggestions of ECAFE (Economic Commission for Asia and Far East). The point of this Bank is to quicken financial and social advancement in Asia and Pacific locale. The bank begun its working on January 1, 1967. The head office of the Bank is found at Manila, Philippines. It is worth specifying here that the Chairmanship ADB is continuously distributed to a Japanese whereas its 3 Appointee Chairmen have a place to USA, Europe and Asia. Currently there is 68 member country of ADB. (Acc. to october 2023)

The Main Functions of ADB are:

1. To make advances and value ventures for the financial and social progression of its creating part countries.
2. To give specialized help for the preparation and execution of improvement ventures and programs and counselling services
3. To react to the demands for help in planning improvement approaches and plans in creating part countries.

Asian Development Bank constituted 'Asian Development Fund' in 1974, which gives advances to Asian nations on concessional intrigued rates. India started borrowing from ADB's OrdinaryCapital Resources (OCR) in 1986.

India is the official executive of the Board of Executives of the Bank. Its locale incorporates India, Bangladesh, Bhutan, Lao PDR (Peoples of Democratic Republic) and Tajikistan. The Back Serve is the Senator of India on the Board of Governors of the Asian Advancement Bank and the Secretary (Foreign Department) is its interchange Governor. On Walk 31, 2017, the Asian Development Bank given a $200 million advance to back the establishment of energy efficient road lights and family apparatuses, as well as the establishment of energy-efficient water pumps over India.

General Agreement on Tariffs and Trade (GATT)

International trade suffered during the Great Depression of 1930, and several nations placed import restrictions to protect their economy. As a result, global trade fell precipitously. The United States of America made numerous recommendations in 1945 to increase global employment and trade. An agreement pertaining to trade taxes was signed by 23 nations in Geneva on October 30, 1947. The General accord on Tariffs and Trade (GATT) is the name of this accord. On January 1st, 1948, it became effective. When GATT was first created, it was a provisional agreement. Later on, however, it became a permanent accord. Geneva served as the home base for GATT.

GATT was disbanded on December 12, 1995, and the World Trade Organisation (WTO) took its place in the Uruguay Round.

The GATT's objectives include-

1. To give every nation in the global market equal chances to trade without showing preference.
2. To raise the effective demand for commodities and real income growth.
3. To remove favours from international trade and limit tariffs and other trade obstacles in order to ensure reciprocal benefits.
4. To offer member nations advice and cooperation in order to resolve conflicts pertaining to international commerce in a friendly manner.
5. To guarantee a higher level of living for everyone on the planet.

These goals served as the foundation for the GATT, which is now the main tool for advancing free and open trade between nations

World Trade Organisation (WTO)

The Uruguay circular of GATT (1986-93) gave birth to World Exchange Association. The individuals of the GATT marked on an assention of Uruguay circular in April 1994 in Morocco for setting up a modern association named WTO. It was authoritatively constituted on January 1, 1995 which took the put of GATT as a successful formal association. GATT was a casual association which controlled world exchange since 1948.

WTO is a lasting association which has been set up on the premise of the universal settlement endorsed by taking part nations. It accomplished the worldwide status like IMF and IBRD but it is not an office of the UNO. Like GATT, WTO's head- quarter is too at Geneva. The display quality of WTO enrollment is 164. There are directly 30 nations in the handle of promotion to the WTO. On 19 December 2015, Afghanistan got to be the 164th part of the World Exchange Organization. Prior, Liberia got to be the 163rd large-scale nation of this body.

There are number of imperative committees for organization of WTO, out of which, 2 committees play the urgent part in WTO. They are-

1. Debate Settlement Body-DSB
2. Exchange Approach Survey Body- TPRB

DSB considers the complaints of part nations against infringement of rules by any part nation. This body names a gather of specialists to examine into such complaints. This body meets twice a month for such cases.

TPRB audits the exchange arrangement of part nations. The exchange approach of all enormous exchange powers of the World are looked into after each 2 a long time. All the individuals of WTO are the individuals of TPRB.

Objectives of WTO-

1. To make strides standard of living of individuals in the part countries.
2. To guarantee full business and wide increment in viable demand.
3. To broaden generation and exchange of goods.

The over three goals were moreover included in GATT, but WTO moreover included a few other targets which are

4. To extend generation and exchange of services.
5. To guarantee ideal use of world resources.
6. To acknowledge the concept of supportable development.

7. To ensure environment

Functions of WTO-

1. To give offices for implemention, organization and operation of multilateral and respective assentions of the world trade.
2. To give a stage to part nations to choose future procedures related to exchange and tariff.
3. To regulate the rules and professional- cesses related to debate settlement.

TRIPS-

The TRIPS understanding presented mental property law into the multilateral exchanging framework for the to begin with time and remains the most comprehensive multilateral assention on mental property to date. In 2001, creating nations, concerned that created nations were demanding on an excessively limit perusing of TRIPS, started a circular of talks that brought about in the Doha Statement. The Doha affirmation is a WTO explanation that clarifies the scope of TRIPS, expressing for case that TRIPS can and ought to be translated in light of the objective "to advance get to to medications for all."

The TRIPs Agreement addresses seven types of intellectual property: (1) copyright and associated rights; (2) trademarks; (3) geographical indications; (4) industrial designs; (5) patents, which also encompass micro-organisms and plant varieties; (6) integrated circuits; and (7) trade secrets.

TRIMS-

On the other hand, created nations got victory in relating issues of speculation and The Understanding on Exchange Related Venture Measures (TRIMs) came into impact on January 1, 1995, along with the foundation of the World Exchange Organization (WTO). TRIMs bargain with controlling venture measures that may affect exchange in products and administrations. It points to make a level playing field for outside investors. TRIMs applies to all WTO part nations and controls venture measures such as nearby substance, exchange adjusting, trade execution, and innovation exchange prerequisites competition with universal exchange. The conclusions of the conference made it clear that issues related to venture and worldwide exchange will be illuminated beneath 'TRIMS', Exchange Related Venture Measures, for which a working bunch will be constituted. The conference too acknowledged to constitute a isolated working bunch for issues related to anti-competitive practices.

WTO and India-

India has been a part of the WTO since January 1995 and moreover had been a part of the WTO's herald General Agreement on Tariff and Trade (GATT) since July 1948. As a creating nation, India has played a noteworthy part in the procedures of the WTO, particularly in voicing its possess concerns and moreover of the whole creating world.

In the Doha WTO conference that took put in 2001, India risen as the most candid of advocates for the creating alliance. The assembly was pronounced a victory since the delegates of 142 nations concurred to an unused circular of exchange talks, counting themes such as environment, competition and investment. India and the World Trade Organization – Most recent Developments There are 4 vital later improvements related to India and the World Trade Organisation (WTO). These 4 are recorded below-

1. Ban of Chinese Portable Apps
2. Issues related to the Peace Clause
3. Information and Communication Innovation (ICT) Tax Case
4. Fisheries Endowments

UNCTAD

UNO pronounced 1960-70 as Advancement Decade. In 1961 UNO endeavored to increment the wage of creating nations with a development rate of 5% p.a. amid that advancement decade. In July 1962, a conference of creating nations was held a Cairo which settled to gather a World Conference for this reason. Financial and Social Chamber of the UNO composed a World Trade and Development Conference from March 31, 1964 to June 16: 1964. A worldwide international trade policy was decided in this Conference. Different issues related to expansion of universal exchange of creating nations were moreover talked about in that Conference. The Conference came to be known as UNCTAD-I.

Presently, UNCTAD has ended up a changeless association for promoting worldwide exchange. It's headquarter is at Geneva (Switzerland), Mr. Allec Irwin is its display Chairman. By and large, UNCTAD has its session after each 4 a long time. IMF has got the lasting representation in all its bodies. This is the reason why IMF incorporates all UNCTAD recommendations in its approaches. UNCTAD suggestions are as it were suggestions, and no nation can be compelled to acknowledge them.

Targets of UNCTAD-

1. To advance worldwide exchange particularly with a see to accelerating the financial advancement of immature countries.
2. To decide approaches and principles for universal exchange and financial development.
3. To propose the methodology for executing pre-approved standards and policies.
4. To help Financial and Social Committee of the UNO.
5. To give a appropriate stage for exchange dialogues.

UNCTAD participation and voting rights-

UNCTAD is working as a changeless office of the Joined together Countries, whose participation is totally discretionary. Any country can acknowledge or take off UNCTAD's enrollment as per its wish. At display UNCTAD has 194 members.

The working of UNCTAD is totally based on equitable standards. Each part has the right to cast as it were one vote. Choices on debate of common significance are taken as it were on the premise of majority of the individuals display, whereas a two-thirds majority is essential for amazingly critical questions.

UNCTAD e-Week 2023-

- Taking place in Geneva, Switzerland, from December 4 to 8, 2023 (online), the focus is on 'Shaping the Future of the Digital Economy.'
- During this week-long event, significant emphasis was placed on issues such as fostering the digital economy and advancing digital entrepreneurship among women, among other topics.

North-South Trade Dialogue

The North-South Dialogue refers to the interaction between the developing and newly independent nations of the "third world," mainly located in Asia, Africa, and Latin America, as they engaged with the industrialized countries of North America and Western Europe in discussions concerning modifications to the international economic framework during the 1970s.

Conferences related to north south dialogue-

1. Paris conference 1975-77
2. Brant commission 1977
3. Kankun conference 1981
4. Urugvay Round and Dunkel proposal1986-1991
5. Prithivi conferences 1992 & 1997
6. International Human Rights Conferences -1993

The North-South Dialogue focused on matters related to trade and tariffs, international finance, foreign aid, and the regulation of multinational corporations and institutions. Some economists have suggested that unrestricted international trade and capital movement between countries could potentially reduce the North-South divide. In this scenario, more equitable trade and capital flows could create opportunities for developing nations to advance economically.

South-South Cooperation

South-South cooperation is done through a wide system of collaboration among nations of the South in the political, financial, social, natural and specialized spaces. Including two or more creating nations, it can take put on a respective, territorial, intraregional or interregional premise. Through South-South collaboration, creating nations share information, abilities, ability and assets to meet their advancement objectives through concerted efforts.

South-South participation is a sign of solidarity among people groups and nations of the South that contributes to their national well-being, their national and collective self-reliance and the fulfillment of universally concurred improvement objectives, counting the 2030 Plan for sustainable Development. Another methodology of South-South participation is Triangular participation, a collaboration in which conventional benefactor nations and multilateral organizations encourage South-South activities through the arrangement of subsidizing, preparing, administration and innovative frameworks, as well as other shapes of support.

The goals of South-South cooperation-

1. Foster and reinforce the self-reliance of creating nations by improving their inventive capacity to discover arrangements and mechanical capacities to their improvement issues and define the imperative methodologies to address them.
2. Promote and fortify collective self-reliance among creating nations through the trade of encounters driving to a more prominent mindfulness of common issues and more extensive get to to accessible knowledge.
3. Recognize and react to the issues and necessities of the slightest created nations, landlocked creating nations, little island creating States and the nations most genuinely influenced by, for case, characteristic fiascos and other emergencies, and empower them to accomplish a more noteworthy degree of support in universal financial exercises.

Globalization

Globalization is a term utilized to depict how exchange and innovation have made the world into a more associated and forbid put. Globalization moreover captures in its compass the productive and social changes that have come almost as a result. It may be imagined as the vestments of an gigantic insect web shaped over glories, with the number and reach of these vestments including over time. Individuals, commercial, fabric products, thoughts, and in fact complaint and destruction have traveled these smooth shorelines, and have done so in lower figures and with lower speed than ever in the display age. The web of globalization proceeded to turn out through the Age of Transformation, when thoughts around freedom, equivalency, and society spread like fire from America to France to Latin America and past.

It rode the swells of industrialization, colonization, and war through the eighteenth, nineteenth, and twentieth centuries, fueled by the development of manufactories, streets, steamboats, buses , and aeroplanes With the Data Age, globalization went into overdrive. Progresses in computer and dispatches innovation propelled a modern worldwide period and readdressed what it implied to be “ associated. ”

The World Wide Web and the Web permitted somebody in Germany to perused around a breaking news story in Bolivia in genuine time. Points of interest of Globalization in India Increment in work Increment in remuneration Tall standard of living.

Types of Globalization-

1. Economic Globalization
2. Cultural Globalization
3. Digital Globalization
4. Geographical Globalization
5. Political Globalization
6. Ecological Globalization

Forerign Direct Investment

Outside Speculation streams in the BOP include FDI streams and portfolio streams comprising of FII streams and assets mobilized by Indian companies through ADRs and GDRs. The remote venture comprising outside coordinate speculation (FDI) and portfolio speculation on net premise was US$ 14.8 billion in 2006-07 and US$ 45.0 billion in 2007-08 (204.7 per cent development), some time recently abating down to US$ 4.0 billion amid 2008- 09 (up to Q3). As a extent of add up to capital streams, net outside speculation stood at 41.6 per cent in 2007-08 (32.6 per cent in 2006-07).

Be that as it may, its share declined to 26.4 per cent amid 2008-09 (April-December) on account of FII outpourings as a result of the worldwide monetary crisis. FDI is considered to be the most appealing sort of capital stream for developing economies as it is anticipated to bring most recent innovation and upgrade generation capabilities of the economy. During 2005-06 to 2008-09, FDI streams expected more noteworthy centrality. Tall influx show India as an alluring speculation goal as a result of its changed contributement climate steady and sound economic and political base, opportunities for financial development, whereas capital speculation overseas reflects the developing worldwide competitiveness of the Indian corporate division.

The two way stream of FDI, hence, implies that whereas the world is taking note of India's showcase potential, Indian companies are too always looking for synergistic acquisitions abroad. The information on influx and outpouring of FDI in distinctive nations is discharged yearly by UNCTAD (Joined together Countries Conference on Exchange and Advancement). With respect to the influx and outpouring of outside coordinate speculation (FDI) amid the year 2022, these figures were discharged by UNCTAD in its yearly report for the year 2023 titled World Venture Report 2023 (33rd).

This report discharged in July 2023 states that whereas the worldwide influx of remote coordinate venture (FDI) in the year 2021 enrolled an increment of more than 50 percent, in 2022 it has declined by 12 percent, due to which it come to the level indeed some time recently the Covid widespread. Concurring to the report, the worldwide influx of FDI in 2022 totaled 95.5 billion (1.3 trillion dollars).

Worldwide influx was 78 billion Concurring to the report, in 2022, out of the add up to FDI influx of 95 billion, 8 billion was in created nations and 6 billion was in creating nations, which was 7 and 1 billion separately in the past year 2021. According to this report of UNCTAD, the influx of FDI in India in 2022 was $ 49 billion, which is approximately 11 percent less than the $ 55 billion gotten in 2021. Agreeing to the report, India has been positioned 8th in terms of FDI influx in 2022, a year back in 2021 moreover it was 8th.

Very Short Type Question:

1- What is MIGA?

Ans- It is a worldwide money related institution which offers political hazard protections and credit improvement ensures. MIGA was set up in 1988. These ensures offer assistance financial specialists to ensure remote coordinate speculations against political and non-commercial dangers in creating countries.

2- What is ADB?

Ans- ADB was set up in Dec 1966 on the suggestions of ECAFE (Economic Commission for Asia and Far East). The point of this Bank is to quicken financial and social advancement in Asia and Pacific locale. The bank begun its working on January 1, 1967. The head office of the Bank is found at Manila, Philippines. It is worth specifying here that the Chairmanship ADB is continuously distributed to a Japanese whereas its 3 Appointee Chairmen have a place to USA, Europe and Asia. Currently there is 68 member country of ADB. (Acc. to october 2023)

Short Type Question:

1- Discuss about TRIMS.

Ans- Created nations got victory in relating issues of speculation and The Understanding on Exchange Related Venture Measures (TRIMs) came into impact on January 1, 1995, along with the foundation of the World Exchange Organization (WTO). TRIMs bargain with controlling venture measures that may affect exchange in products and administrations. It points to make a level playing field for outside investors. TRIMs applies to all WTO part nations and controls venture measures such as nearby substance, exchange adjusting, trade execution, and innovation exchange prerequisites competition with universal exchange.

2- Discuss about TRIPS.

Ans- The TRIPS understanding presented mental property law into the multilateral exchanging framework for the to begin with time and remains the most comprehensive multilateral assention on mental property to date. In 2001, creating nations, concerned that created nations were demanding on an excessively limit perusing of TRIPS, started a circular of talks that brought about in the Doha Statement. The Doha affirmation is a WTO explanation that clarifies the scope of TRIPS, expressing for case that TRIPS can and ought to be translated in light of the objective "to advance get to to medications for all."

3- What is the objectives of World Bank?

Ans- **Objectives of World Bank-**

1. To give long-run capital to part nations for financial reproduction and advancement.

2. To initiate long-run capital Venture for guaranteeing BOP balance and adjusted improvement of worldwide exchange.

3. To advance capital speculation in part nations

4. To give ensure for credits allowed to little and expansive units and other ventures of part countries.

5. To guarantee the usage of improvement ventures so as to bring almost a smooth transference from a war-time to peace economy.

4- Write a note on globalisation.

Ans- Globalization is a term utilized to depict how exchange and innovation have made the world into a more associated and forbid put. Globalization moreover captures in its compass the productive and social changes that have come almost as a result. It may be imagined as the vestments of an gigantic insect web shaped over glories, with the number and reach of these vestments including over time. Individuals, commercial, fabric products, thoughts, and in fact complaint and destruction have traveled these smooth shorelines, and have done so in lower figures and with lower speed than ever in the display age. The web of globalization proceeded to turn out through the Age of Transformation, when thoughts around freedom, equivalency, and society spread like fire from America to France to Latin America and past.

Long Type Question:

1- Discuss about objectives and functions of WTO.

Ans- The Uruguay circular of GATT (1986-93) gave birth to World Exchange Association. The individuals of the GATT marked on an assention of Uruguay circular in April 1994 in Morocco for setting up a modern association named WTO. It was authoritatively constituted on January 1, 1995 which took the put of GATT as a successful formal association. GATT was a casual association which controlled world exchange since 1948.

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2. To give a stage to part nations to choose future procedures related to exchange and tariff.
3. To regulate the rules and professional- cesses related to debate settlement.

UNIT-VII

Quantitative Restriction

Quota

Meaning-

Import quota is a protectionist gadget to confine the supply of a great or benefit from overseas beneath an import standard, a settled sum of a product in volume or esteem is permitted to be imported into the nation amid am indicated period of time, as a rule a year. For this reason, the government may issue an import permit that it may offer either to merchants at a competitive cost or fair grant it to merchants on the premise of first-come first-served.

Objectives of Import Quotas-

The taking after are the goals of import quotas:

1. To ensure residential businesses from foreign competition by limiting imports.
2. To adjust an unfavorable adjust of installments confining imports.
3. To control hypothesis in imports.
4. To stabilize and keep up the inside cost level by directing imports.

Types of Import Quotas-

Import Standards are of five types:

1. **Tariff Quantity-** under this share framework, a given amount of a great is allowed to enter obligation free or upon instalment of moderately low obligation. But imports in overabundance of that amount are charged a relatively high rate of obligation. The duty share may be independent or agreed.

   Merits-Tariff standard has the taking after merits:

   1. Tax quantity combines the highlights of a tariff with those of a quantity.

   2. It limits imports and spares rare foreign trade resources.

3. Tax quantity yields incomes to the country.

Demerits. This framework has the taking after demerits:

1. Tax quantity increments the influx of imports when products are permitted obligation free or at low tariff rates into the starting, as a result, the residential cost level of the bringing in nation is disturbed.

2. When imports surpass the indicated restrain, set by the standard, the whole gain from the low tariff rate go to the trading country.

2. One-sided Quota- Beneath this framework of quantity, the total volume or esteem of the product to be imported is settled by law or decree without any assention with the other nations. The independently settled standard may be either worldwide or designated. Beneath the worldwide standard, the full sum of the share may be imported from any one nation. Whereas beneath the apportioned share framework, the tatal amount of the standard is disseminated among diverse countries.

Merits - This standard framework has the taking after merits

1. A nation can import its whole standard of an item from any one nation al great terms

2. To capture the showcase of the bringing in nation the sending out nations lower the costs of their items. Subsequently, the trading nation picks up through great terms of trade.

Demerit- This framework has the taking after demerits-

1. This framework does not grant satisfactory security to residential producers.
2. This framework leads to over-supply of merchandise in the showcase in this manner decreasing their prices
3. As an end product, when the share is depleted, deficiencies show up and costs begin raising.

3.Bilateral Quota- Beneath this standard framework, standards are settled by a few assention with one or more other nations Haberler calls them concurred quotas Merits. This framework has the taking after

Merits-

1. Quantities are settled by two-sided transaction. So there is no discrimination

2. It decreases changes in imports and their prices.

Demerits- The taking after are its demerits:

1. It advances debasement at the time of understanding between the two countries.

2. The trading nation may raise the costs of items once the understanding is signed.

4. Mixing Quota- This framework requires household makers in the quantity settling nation to utilize imported crude materials in certain extent along with household crude materials to deliver wrapped up items. In this way the standard of crude materials to be imported are settled in amount by the government.

Merits- This quantity framework has the taking after merits

1. It ensures residential makers of crude materials from outside competition.

2. It spares the remote trade of the country.

Demerits- The Mixing share framework has some disadvantages:

1. This framework helps in lower use of world assets and causes tall household prices
2. If the imported crude materials are of a destitute quality, the quality of items delivered in the bringing in nation may be low.

4. **Import Licensing-** Import Licensing is the framework concocted to regulate the different sorts of shares. Agreeing to this framework, the sum of the product to be imported is to begin with decided on the premise of the over said standard frameworks. At that point import licenses are issued by the suitable specialist to the merchants for indicated amounts of commodities to be imported

   Merits-This framework has the taking after merits

   1. It decreases household deficiency of products.

   2. The amounts of commodities to be imported are settled by the government.

   3. As a culmination, there are exceptionally small cost fluctuations.

Demerits- The taking after are the demerits of this system:

1. It is an unbending framework in which those merchandise are imported which are issued licenses.
2. It leads to restraining infrastructure in import trade since as it were built up firms are issued licenses.

Effects of Import Quotas-

Kindleberger has dissected eight impacts of consequence quantities, a few beneath Partial Equilibrium and others beneath General Equilibrium. To begin with, we clarify the impacts of import quotas beneath Partial Equilibrium analysis.

Partial Equilibrium Analysis

1. Price Impact.
2. Protective Effect
3. Consumption Impact
4. Revenue Effect
5. Redistributive
6. Balance of Payment Effect

General Equilibrium Analysis

The obsession of an Import Quota tends to alter the terms of trade of the nation. The unused terms of trade may be more or less ideal to the nation settling the share. It depends upon the flexibility of the offer bend of the imposing business model control of the bringing in nation or of the trading nation. If the bringing in nation has a restraining infrastructure in bringing in the product (or its offer bend is flexible), the terms of trade will be positive to it. On the other hand, if the sending out nation has restraining infrastructure in product on which the moment quantity is forced (or its offer bend is versatile), the terms of exchange will move in its support and against the standard forcing nation.

Tariff

Meaning-

A tariff is a charge or obligation required on merchandise when they enter and take off the national boundary. In this sense, a tariff alludes to import obligations and export obligations. But for down to earth purposes, a duty is synonymous with import obligations or custom duties.

Types of Tariffs-

Tariffs are classified in a number of ways.

1. On the Premise of Purpose- Tariff are utilized for two diverse purposes for revenue and for protection.

1.1 Revenue Tariff- Revenue Tariffs are implied to give the state with revenue. Revenue obligations are required on extravagance buyer merchandise. The lower the moment obligations, the bigger is the revenue from them.

1.2 Protective Tariff - Protective tariffs are implied "to keep up and empower those branches of domestic industry secured by the obligations."

The taking after sorts of duty obligations are required: ad valorem, specific and compound duties.

a. Ad Valorem Duty-The most common sort of obligation is the ad valorem obligation. It is exacted as a rate of the total value of the imported common obligation. It may be 25 per cent, 40 per cent and so on.

b. Specific Duty- Specific Duties are required per physical unit of the imported product, as Rs X per versatile, as cloth per meter, as oil per litre etc.

c. Compound Duty- Frequently, governments require compound duties which are a combination of the ad valorem and the specific duties. In this case, units of an imported product are required rate ad valorem duty also a specific duties on each unit of the product. For occurrence, a nation may force a consequence obligation on a bike at the settled rate of Rs. 1 lakh + 10% on the cost of bicycle.

2. On the Premise of Country-wise Discrimination- The taking after sorts of duty are required on the premise of country-wise discrimination.

1. Single Column Tariff- When a uniform rate of obligation is forced on all comparable commodities independent of the nation from which they are imported, it is called single-column tariff.

2. Double Column Tariff- Beneath this framework, two distinctive rates of obligation exist for all or a few of the commodities. The government of the nation announces both the rates at the starting or one at the starting and another after settling the rates beneath exchange understandings. They can be divided as follows:

(i) General and Conventional Tariff- The general tariff is the list of tariffs which is reported by the government as its yearly duty approach at the starting of the year. It is a specific duty rate which is charged from all nations. On the other hand, conventional tariff rates are base on exchange agreements/treaties with other countries.

(ii) Maximum and Minimum Tariffs- Governments more often than not settle two tariff rates for bringing in the same product from diverse nations. Nations with which it has a commercial understanding settlement, (beneath most favoured country), minimum tariff rate is forced. On the other hand maximum tariff rate is forced on imports from the rest of the countries.

3. Multiple or Triple Column Tariff- Beneath the multiple column tariff framework, two or more tariff rates are exacted on each category of product. But the regular hone is to have three diverse records of tariffs, ie general, intermediate, and preferential.

3. On the Premise of Countering- There are two ways to exact consequence obligations on the premise of retaliation

1. Retaliatory Tariff- A retaliatory tariff obligation is required by one nation on the imports of another nation in arrange to rebuff the last mentioned for its exchange approach which hurts its sends out or adjust of instalments position.

2. Countervailing Obligation- It is an extra obligation which is forced on a product whose send out cost is decreased by the other nation through send out endowment. The extra obligation is required to raise its cost in arrange to secure makers of the same product in the bringing in nation from the cheap outside commodity.

Effects Of Tariffs- Tariffs have an assortment of impacts which depend upon their control to diminish imports. The impact of a tariff may be dissected from the angle of the economy as an entire which is known as the common balance analysis. Or, they may be examined from the point of view of a specific great or showcase which is known as the fractional harmony analysis.

1. Impact of tariff under Partial Equilibrium- This impact is related to a little industry in a little nation. When a tax is force on the imports of a single product by a little nation. It does not influence the rest of the residential economy and too the world cost of this product.

Prof. Kindleberger has recorded eight impacts of duties (1) Protective Impact; (2) Consumption Impact; (3) Revenue Impact; (4) Redistributive Impact; (5) Terms of Trade Impact; (6) Competitive Impact; (7) Income Impact; and (8) Balance of Payment Impact.

All these impacts are the result of the Cost Impact which we to begin with clarify

2. Effect of tariff under General Equilibrium- The impacts of a duty beneath the general balance are considered in the case of a small nation and a large country.

2.1 Effects of a tariff in a small Nation- The impacts of a tariff beneath the general balance examination are dissected in terms of the consumption impact, the production impact, and the terms of trade effect.

2.2 Effects of a Tariff in a large Country- The impacts of burden of a tariff in the case of a expansive nation are to make strides its terms of trade, decrease its volume of trade and move forward its welfare.

Non Tariff Barriers

Meaning-

Non-tariff Barriers (NTBs) are impediments to imports other than tariffs. They are authoritative measures that are forced by a domestic government to segregate against foreign products and in support of domestic goods.

Classification of NTBs- They are as a rule classified as beneath:

1. Quantitative Trade Restrictions- They are purport standards, tariff quotas, voluntary Export Restrictions (VERs), Orderly Market Agreements (OMAs), Multi fibre Arrangement (MFA), etc.

2. Administrative or Standard and Regulations- It alludes to wellbeing, sterile and security controls, natural (contamination) controls, traditions valuation and classification, stamping and bundling necessities, imports authorizing methods, state trading and government restraining infrastructures, deferring imports at the borders or traditions, etc.

Type of NTBs- It is not conceivable to clarify all sorts of NTBs. Be that as it may, a brief think about of the primary sorts of barriers.

1. **Voluntary Export Restrictions (VERS)** –

   A voluntary export restriction (VER) is an assention by an exporter country's exporters or government with a bringing in nation to constrain their sends out to it. It is entered into by the bringing in nation when its residential industry is enduring from huge imports. The limit to imports may be set in terms of amount, esteem or showcase share. VERs have been embraced by nations since the use of quotas and tariff has been forbidden by the GATT. But VERs do not come beneath the GATT rules.

2. **Export Subsidy** –

   An export subsidy is a government grant given to an export firm (or makers) to decrease the cost per unit of products sent out overseas. It empowers the firm to offer a bigger amount of its products at a lower cost in the send out showcase than in the domestic advertise.

3. **Countervailing Duty-** A countervailing duty is a import duty or tariff forced by an bringing in nation to raise the trade lower price.

Other Non-Tariff Barriers-

Besides, import quota, dumping, trade controls, trade appropriations, countervailing obligations, VERS, etc., there are other non-tariff boundaries which are clarified briefly as under.

1. **Government Procurement-**

   Governments separate between residential and foreign providers of products and administrations required by government divisions. The point is to back household industry. Its affect is like a tax but without the income. In truth, the fetched of obtainment of merchandise and administrations by the government increases.

2. **Customs Valuation And Classification –**

   Custom valuation method is to intentionally delay the clearance of merchandise by custom authorities so as to increment the taken a toll of bringing in products, as an import tariff does. Advance, different commodities are portrayed in the traditions list and partitioned duty rates are endorsed for each category. The traditions authorities regularly charge tall duty rates by their claim categorisation of merchandise with tall rates. Such methods limit imports since they make them dearer and non- competitive in the nearby showcase.

3. **Import Permitting Procedures-**

   Many nations embrace complicated and costly consequence permitting strategies limit imports. Import Permitting are regularly sold to the most noteworthy bidders brother cases, merchants required to store expansive wholes of cash with the government for getting import licenses. Such strategies limit imports like import tariffs.

4. **Local Substance Regulations-**

   In numerous creating nations, import of fabricated items like cars, TVs, computers, etc are confined if they do not meet local substance directions. Outside producers of cars the India are required to have adequate local substance in the frame of save parts made with India. This is done to ensure residential makers of parts from outside competition.

5. **Technical Barriers-** Technical boundaries are of different sorts which confine imports. They incorporate wellbeing and security controls, clean controls, mechanical guidelines, naming and bundling directions so on.

Very Short Type Question:

1- Define import Quota .

Ans- Import quota is a protectionist gadget to confine the supply of a great or benefit from overseas beneath an import standard, a settled sum of a product in volume or esteem is permitted to be imported into the nation amid am indicated period of time, as a rule a year. For this reason, the government may issue an import permit that it may offer either to merchants at a competitive cost or fair grant it to merchants on the premise of first-come first-served.

2- What is tariff?

Ans- A tariff is a charge or obligation required on merchandise when they enter and take off the national boundary. In this sense, a tariff alludes to import obligations and export obligations. But for down to earth purposes, a duty is synonymous with import obligations or custom duties.

Short Type Question:

1- Discuss about types of tariffs.

Ans- Tariffs are classified in a number of ways.

1. On the Premise of Purpose- Tariff are utilized for two diverse purposes for revenue and for protection.

1.1 Revenue Tariff- Revenue Tariffs are implied to give the state with revenue. Revenue obligations are required on extravagance buyer merchandise. The lower the moment obligations, the bigger is the revenue from them.

1.2 Protective Tariff - Protective tariffs are implied "to keep up and empower those branches of domestic industry secured by the obligations."

The taking after sorts of duty obligations are required: ad valorem, specific and compound duties.

a. Ad Valorem Duty-The most common sort of obligation is the ad valorem obligation. It is exacted as a rate of the total value of the imported common obligation. It may be 25 per cent, 40 per cent and so on.

b. Specific Duty- Specific Duties are required per physical unit of the imported product, as Rs X per versatile, as cloth per meter, as oil per litre etc.

c. Compound Duty- Frequently, governments require compound duties which are a combination of the ad valorem and the specific duties. In this case, units of an imported product are required rate ad valorem duty also a specific duties on each unit of the product. For occurrence, a nation may force a consequence obligation on a bike at the settled rate of Rs. 1 lakh + 10% on the cost of bicycle.

2- What do you mean by non- tariff barriers.

Ans- Non-tariff Barriers (NTBs) are impediments to imports other than tariffs. They are authoritative measures that are forced by a domestic government to segregate against foreign products and in support of domestic goods.

Classification of NTBs- They are as a rule classified as beneath:

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3- What are the objectives of import quotas?

Ans- **Objectives of Import Quotas-**

The taking after are the goals of import quotas:

1. To ensure residential businesses from foreign competition by limiting imports.
2. To adjust an unfavorable adjust of installments confining imports.
3. To control hypothesis in imports.
4. To stabilize and keep up the inside cost level by directing imports.

Long Type Question:

1- What is tariff? Please show with the help of partial diagram the protective, consumption, revenue, price and redistribution effect of a tariff.

Ans- A tariff is a charge or obligation required on merchandise when they enter and take off the national boundary. In this sense, a tariff alludes to import obligations and export obligations. But for down to earth purposes, a duty is synonymous with import obligations or custom duties.

Types of Tariffs-

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UNIT-VIII

Foreign Exchange

Meaning-

The Foreign Exchange or Exchange rate is the rate at which one currency is changed for another currency. The exchange rate between dollar and the pound alludes to the number of dollar required to purchase a pound. The exchange rate of $ 2.5 = £ 1 or£ 0.40 = $ 1 will be kept up in the world foreign exchange ask by arbitrage. Arbitrage alludes to the buy of an outside currency in ask where its cost is low and to distribute it in a few other ask where its cost is high.

Instuments-

Foreign exchange ask druggies utilize diverse disobedient to keep down from misfortune pitfalls. These disobedient are inductions that are utilized to arbitrage or support the trade rate danger emerging from forex bargains.

Five major forex instruments-

1. **Spot contracts-**

   Spot contracts are the contract of swapping monetary standards, securities, and merchandise at the cost of the assention date. However, which is known as spot rate contracts, if the course of action is conducted at the deal date exchange rate. It includes the prompt buy and exchange of monetary standards, securities, and merchandise.

   For outline, the gold cost on 01/ 04/ 20XX is $2,000. still, he can enter into spot contracts and take moment physical conveyance of gold, If the client has a crave to purchase the gold@$ 2000.

2. **Forward contracts-**

   A forward contract is an assention of buying or offering of specific resource on a specified future date at the indicated rate. At that point unborn dates may be long-term. It's utilized by players to circumscribe the danger of trade rate inquiry. Forward contracts take put over the counter, two parties sit over and arrange the volume, quality, fetched, and date of the deal. Forward contracts ought to be utilized to settle particular rates on the date of assention to keep down from money drifting pitfalls.

For outline, a buyer X and a merchant Y concur to do exchange in 20 tons of gold on 31 December 2015 at $ 25,000 per ton. At that point $ 25,000 per ton is the forward cost of 31 December 2015 gold.

3. **Options-**

Options are precisely like a forward contract, parties can work out alternatives on favourable terms. It's moreover a sort of forex outgrowth utilized to lighten forex exchanging pitfalls. It gives the buyer the right, but not a duty to exchange any starting resource, monetary standards, security, etc. At a concurred taken a toll on a indicated date. Parties included in the alternatives are called alternative holders, choice pens. Choices have two significant attributes.

1. Call option
2. Put option

4. **Futures-**

A prospects contract is an course of action between two offices that make one specialist buy an resource, monetary rebellious, securities, monetary forms, and counterparty to distribute an resource, monetary instrument, securities, and monetary forms at a settled future date. Prospects needful both the organizations in the course of action have adjust in their outskirts account.

For outline, buyer A and merchant B enter into unborn contracts of 1,000 kilograms of Rice at $ 10 per kg. The substitute day cost of Rice is $ 11. The cost development has driven to a misfortune of $ 1,000 to merchant B, whereas A has picked up the comparing quantum.

5. **Swap-**

Foreign exchange Swaps is the assention between two offices to alter their benefit or cash floods from any implies or back payments, which is passed amid specific interims. Swaps are a trade between two parties to exchange monetary forms for a pre-determined time period. most extreme intrigued rates are getting moved between two organizations. The development of Swaps are dispersed into some groups-

1. Interest rate Swap
2. Commodity Swap
3. Equity Swap
4. Currency Swap.

Exchange Rate Determination-

The exchange rate in a free area is decided by the demand for and the supply of foreign exchange. The balance exchange rate is the rate at which the demand for outside exchange rises to supply of foreign exchange.

The Mint Parity Theory-

This recommendation is related with the working of the transnational gold standard. Beneath this framework, the cash in utilize was made of gold or was convertible into gold at a settled rate. The esteem of the money unit was characterized in terms of certain weight of gold, that is, so various grains of gold to the rupee, the dollar, the pound, etc. The rate at which the standard money of the nation was convertible into gold was called the mint price of gold. The exchange rate between dollar and pound would be settled at $ 36/£ 6 = $ 6. This rate was called the mint parity or mint standard of exchange since it was grounded on the mint price of gold. In this manner beneath the gold standard, the typical or basic rate of exchange was rise to the rate of their mint standard values(R = $/€).

Assumption- This suggestion is grounded on the taking after assumptions

1. The cost of gold is settled by a nation in terms of its currency.
2. It buys and offers gold in any quantum at that price.
3. Its cost position shifts straightforwardly with its plutocrat force.
4. There's development of gold between countries.

The Purchasing Power Parity Theory-

The Purchasing Power Parity (PPP) suggestion was created by Gustav Cassel in 1920 to decide the exchange rate between nations on inconvertible paper monetary standards. The recommendation state that balance exchange rate between two inconvertible paper monetary standards is decided by the equivalency of the relative alter in relative costs in the two nations.

In other words, the evaluated exchange between two nations is decided by their relative cost situations.

There are two exhibitions of the PPP proposition-

1. The absolute exhibitions
2. The relative exhibitions

To calculate balanced exchange rate, the taking after equation is used-

$$R=\frac{Household\ Price\ of\ a\ Foreign\ Currency\ x\ Household\ Price\ Index}{Foreign\ Price\ Index}$$

Hedging-

An imperative calculate affecting the forward rate is hedging. Hedging is the act of maintaining a strategic distance from or covering a foreign exchange risk emerging from an concurred forward rate. As a rule, foreign exchange rates vacillate persistently. Subsequently, a individual who has to get or make installment in a foreign money at a future date faces the hazard of accepting less or paying more in terms of the domestic money than expected. Supporting includes an assention to purchase or offer the required foreign exchange at today's concurred rate on a few future date, more often than not 3 months hence.

Foreign Trade Rate Policy-

1. **Fixed Exchange Rates-**

   Under settled or pegged trade rates all trade exchanges take put at exchange rate that is decided by the money related specialist. It may settle the exchange rate by enactment or mediation in money markets. It may purchase or offer monetary standards agreeing to the needs of the nation or may take arrangement choice to appreciate or deteriorate the national money. The money related specialist (central bank) holds outside money saves in arrange to mediate in the outside exchange market, when the request and supply of outside exchange (say pounds) are not break even with at the settled rate.

2. **Flexible Exchange Rates-**

   Flexible, drifting or fluctuating trade rates are decided by showcase powers. The money related specialist does not mediate for the reason of affecting the exchange rate. Beneath an administration of unreservedly fluctuating exchange rates, if there is an overabundance supply of cash, the esteem of that cash in foreign exchange markets will drop. It will lead to deterioration of the exchange rate. On the other hand, deficiency of a money will lead to appreciation of exchange rate subsequently driving to reclamation of harmony in the trade advertise. These advertise strengths work consequently without any mediation on the portion of money related authority.

3. **Multiple Trade Rates-**

   It is a framework beneath which a nation embraces diverse rates of exchange for purport and send out of diverse commodities. A nation may embrace controlled rate of exchange with a few nations and free exchange rates with others. The exchange rates do not vacillate but a few settled exchange rates and their categories may exist. The goals of numerous exchange rates are to get the greatest outside exchange by boosting sends out and limiting imports to redress the adjust of installments deficit.

Convertibility of Rupee in Current Account-

The Government present in 1993-94, full convertibility of rupee in exchange account. By receiving this step the Government annulled two fold exchange rate framework for trade and consequence and actualized Changed exchange rate Administration based on open advertise exchange. In budget recommendations of 1994-95, at that point Union Fund Serve, Dr. Manmohan Singh, pronounced the full convertibility of rupee in the current account. This full convertibility, be that as it may, did not meet the standards endorsed by the IMF beneath Article-VIII of the Assention. Article-VIII does not lay any limitations on current account exchange among the nations.

On 19th Eminent, 1994 the RBI announced certain relaxations whereas pronouncing full convertibility of Indian rupee in current account. These relaxations are:

1. The repatriation of salary earned from ventures by NRIs and their abroad corporate bodies will be permitted in a staged way over a three year period.
2. The existing highest ceilings for giving outside trade for outside visits, instruction, therapeutic treatment, blessing and administrations was changed over into characteristic ceilings past which outside trade seem be gotten for bonafide current installments after making a reference to the RBI.
3. Intrigued repatriation office was given on stores of non- inhabitant non-repatriable (NRNR). Accounts from October 1, 1994, but the vital sum remained non- repatriable. Both foremost and intrigued sums were non-repatriable earlier.
4. No unused stores beneath outside money (conventional) non-repatriable store conspire were to be acknowledged after Admirable 20, 1994, but stores acknowledged some time recently October 1, 1994 beneath FCONR Conspire will get the office of intrigued repatriation.

The handle of facilitating the limitations was formalized in Eminent 1994 with India tolerating Article VIII status of the IMF. There has been encourage unwinding of limitations on current exchanges in the taking after years.

Convertibility of Rupee in Capital Account-

Tarapore Committee, constituted by RBI for proposing street outline on full convertibility of rupee in capital account, submitted its report on July 31, 2006. The report was made open by the RBI on September 1, 2006. Committee proposed three stages of receiving full convertibility of rupee in capital account- The first may be embraced in 2006-07 itself, taken after by the second moment in 2007-09 and the third stage by 2011. Committee suggested raising of the ceiling on External Commercial Borrowings (ECB) for programmed endorsement and recommended that Non-Resident Indians (NRIs) ought to be permitted to contribute in capital markets The report favours for connecting the limits to paid-up capital and free saves and not to unimpair Tier-I capital as of presently and to be raised to 50% in stage I, 75% in stage II and 100% by stage III finishing year 2011.

Global Financial Crises-

The Global Financial Crises (GFC) alludes to the period of extraordinary stretch in worldwide money related markets and keeping money frameworks between mid 2007 and early 2009. Amid the GFC, a downturn in the US lodging advertise was a catalyst for a monetary emergency that spread from the Joined together States to the rest of the world through linkages in the Global Financial Crises. Numerous banks around the world brought about expansive misfortunes and depended on government bolster to maintain a strategic distance from liquidation. Millions of individuals misplaced their employments as the major progressed economies experienced their most profound subsidences since the Awesome Discouragement in the 1930s. Recuperation from the emergency was too much slower than past retreats that were not related with a monetary crisis.

Main Causes of the GFC

1. Intemperate risk-taking in a ideal macroeconomic environment
2. Expanded borrowing by banks and investors
3. Direction and approach errors

Very Short Type Question:

1- Define hedging.

Ans- An imperative calculate affecting the forward rate is hedging. Hedging is the act of maintaining a strategic distance from or covering a foreign exchange risk emerging from an concurred forward rate. As a rule, foreign exchange rates vacillate persistently. Subsequently, a individual who has to get or make installment in a foreign money at a future date faces the hazard of accepting less or paying more in terms of the domestic money than expected. Supporting includes an assention to purchase or offer the required foreign exchange at today's concurred rate on a few future date, more often than not 3 months hence.

2- What do you mean by spot contracts?

Ans- Spot contracts are the contract of swapping monetary standards, securities, and merchandise at the cost of the assention date. However, which is known as spot rate contracts, if the course of action is conducted at the deal date exchange rate. It includes the prompt buy and exchange of monetary standards, securities, and merchandise.

Short Type Question:

1- What is global financial crisis?

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2- What is Purchasing Power Parity theory?

Ans- The Purchasing Power Parity (PPP) suggestion was created by Gustav Cassel in 1920 to decide the exchange rate between nations on inconvertible paper monetary standards. The recommendation state that balance exchange rate between two inconvertible paper monetary standards is decided by the equivalency of the relative alter in relative costs in the two nations.

In other words, the evaluated exchange between two nations is decided by their relative cost situations.

3- Discuss about the Convertibility of Rupee in Capital Account.

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Long Type Question:

1- What do you mean by Mint Parity theory.

Ans- **The Mint Parity Theory-**

This recommendation is related with the working of the transnational gold standard. Beneath this framework, the cash in utilize was made of gold or was convertible into gold at a settled rate. The esteem of the money unit was characterized in terms of certain weight of gold, that is, so various grains of gold to the rupee, the dollar, the pound, etc. The rate at which the standard money of the nation was convertible into gold was called the mint price of gold. The exchange rate between dollar and pound would be settled at $ 36/£ 6 = $ 6. This rate was called the mint parity or mint standard of exchange since it was grounded on the mint price of gold. In this manner beneath the gold standard, the typical or basic rate of exchange was rise to the rate of their mint standard values(R = $/€).

Assumption- This suggestion is grounded on the taking after assumptions

1. The cost of gold is settled by a nation in terms of its currency.
2. It buys and offers gold in any quantum at that price.
3. Its cost position shifts straightforwardly with its plutocrat force.
4. There's development of gold between countries.