

Written Exam at the Department of Economics winter 2016-17

The Economics of the European Union

Final Exam

February 9, 2017

(3-hour closed book exam)

Please note that the language used in your exam paper must correspond to the language for which you registered during exam registration.

This exam question consists of 2 pages in total

NB: If you fall ill during the actual examination at Peter Bangsvej, you must contact an invigilator in order to be registered as having fallen ill. Then you submit a blank exam paper and leave the examination. When you arrive home, you must contact your GP and submit a medical report to the Faculty of Social Sciences no later than seven (7) days from the date of the exam.

Written exam for the B.Sc. or the M.Sc. in Economics The Economics of the European Union

February 9, 2017

Number of questions: This exam consists of 3 questions.

1. Which of the following statements are correct? Remember to provide a brief explanation.

- (a) If the nominal exchange rate appreciates by more than the inflation differential, then the real exchange rate is depreciating.
- (b) The Fisher principle states that the interest rate differential must be equal to the expected exchange rate depreciation.
- (c) McKinnon suggests that the degree of product diversification determines whether two countries are optimal candidates for monetary union.
- (d) All EU member states must, eventually, adopt the euro.
- (e) Inflation rates across EMU member states must be the same since these countries have adopted a common currency.

2. Fiscal Policy in a monetary union

- (a) What is the role of fiscal policy in a monetary union? Distinguish between automatic stabilizers and discretionary fiscal policy.
- (b) Are there any limits on national fiscal policy in EU and EMU?
- (c) Why is it often argued that national fiscal policy should be constrained in all countries regardless of membership in a monetary union?
- (d) Why is the Stability and Growth Pact controversial?

3. Exchange rate regimes

- (a) Describe and distinguish between at least six different exchange rate regimes.
- (b) Describe and contrast ERM I and ERM II.
- (c) Why did ERM I break down?

- (d) Is economic performance affected by the exchange rate regime? Summarize the empirical evidence.
- (e) What factors determine the choice of exchange rate regimes? Discuss the main determinants and give a brief account of the empirical evidence.