

Correction Manual

Written Exam for the B.Sc. or M.Sc. in Economics winter 2011-2012

Economics of the EU

Elective Course

19 December 2011

(3-hour /closed book exam)

Please note that the language used in your exam paper must correspond to the language of the title for which you registered during exam registration. I.e. if you registered for the English title of the course, you must write your exam paper in English. Likewise, if you registered for the Danish title of the course or if you registered for the English title which was followed by “eksamen på dansk” in brackets, you must write your exam paper in Danish.

If you are in doubt about which title you registered for, please see the print of your exam registration from the students’ self-service system.

Question 1

Overall theme: EU's competitiveness in the world.

- Describe the main aims and rules of EU's competition policies

Chapter 11 Baldwin & Wyplosz - introduction. Articles 81, 82 on page 268-269.

- Analyse whether EU's economic integration and the associated growth of trade is a force of convergence or divergence of incomes between regions of the EU.

Chapter 7 in Artis and Nixon on regional policies, in particular section 7.1.

- Analyse the divergence in competitive positions in the Eurozone with a focus on the cost of labour.

Chapter 14 in Artis and Nixon on Labour Market policies, in particular section National policies, EMU and reforms.

- Analyse EU's unemployment and labour market policies, in particular, how productivity is addressed and challenged in EU as whole and across the European Union.

Chapter 14 in Artis and Nixon on Labour Market policies, in particular section National policies, EMU and reforms.

- Formulate your own competitiveness strategy of the European Union based, for instance, on your analysis above.

Should include competition, regional, labour market and economic policies to the EU.

Question 2

Overall theme: The Future of the EMU

- Describe the monetary policy strategy of the ECB.

De Grauwe, Chapter 9 Section 6.2 The Monetary Policy Strategy of the ECB: A description, pp. 199-201, eventually extended with the evaluation pp. 201-203.

- Analyse whether there is a trade off between price stability and financial stability.

De Grauwe p. 204-207, especially figure 9.12 and 9.13 - both are relevant and should be included.

- Analyse whether the recent reforms of the EMU may affect the optimality of a monetary union using an optimum currency area approach.

Description of reforms not explicitly part of readings, as regards the Euro-pact, but part of guest lecture by Niels Thygesen and the lectures.

The important aim of this question is however to discuss reforms of the EMU whether they are already in place, have been proposed recently or could be an interesting idea.

Therefore section 5.3 in De Grauwe pp. 109-113 is perfectly fitted to use as background for the analysis.

- Analyse whether a change in the no-bailout clause of the ECB may be a way out of the current crisis of the EMU.

Section 10.5, pp.239-241 in De Grauwe Risk of Default and bailout in a monetary union and preferably combined with the earlier discussion in chapter 9 on the liquidity trap, section 9.5 The Eurosystem as lender of last resort during the financial crisis.

- Analyse which other factors may respectively improve or reduce the future stability of the EMU.

Section 10.5 above about the risks.

Coordination of fiscal policies pros and cons from chapter 10 in De Grauwe.

Theory of Optimum Currency Areas – De Grauwe.

Question 3.

Overall theme: EU's role in the world

- Analyse/describe the theoretical trade effects, creation and trade diversion, in a partial equilibrium setting.

Artis & Nixon, chapter 3, The Economics of Preferential trading areas and Regional Integration. Section 3.1 pp. 56-59, especially figure 3.1 and 3.2.

- Define and describe the content of the so-called Economic Partnership Agreement (EPA)s that were created by the EU with the Cotonou Agreement.

Artis & Nixon, section 13.6 EU-ACP trade, in particular the section on Economic Partnership Agreements with the ACP countries.

Well-suited as well Camilla Bune Sørensen chapter 2, especially p. 11-13.

- Describe - using the knowledge from trade creation and trade diversion - the economic effects of the EPA's.

Could be done by both Artis and Nixon chapter 3 improvising, but should be done properly by using chapter 3 from Camilla Bune Sørensen, especially pp. 28-36.

- What could in your view be the rationale behind the difficulties in agreeing on EPA's.

- The economic effects from the previous question could be a good point of departure for this analysis. Moreover, on page 18 in Bune Sørensens thesis some criticism of the EPA negotiations are also addressed.
- Describe the financing of EU's foreign aid, with special reference to the ACP's.

Chapter 13 in Artis & Nixon, section 13.4 is a place to start regarding financing of ODA.

Importantly to say how aid is not financed – not financed through ordinary budget.

The figures for ACP aid have been given in different slides during the course.