

Written Exam for the B.Sc. or M.Sc. in Economics, Winter 2010/2011

Economics of the EU

Elective Course

16 FEB 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.

Until the end of 2010, EU’s environment policy is performed within the framework of the sixth Environment Action Programme – (Appendix 1).

Analyse this action programme from an EU environment economics perspective and determine more precisely the contents and methods of EU’s environment policy.

Include, for instance, aspects such as whether or not EU’s environment policy based on the information you have from this action programme is more command-and-control (or rules) based or market-based.

Explain the economics behind internalizing the externalities of pollution by imposing a tax.

What are the main achievements of EU’s environment policy so far?

Mention some of the advantages and disadvantages (/or risks) of a tradeable permits regime (quotas) such as EU’s CO2 Emissions trading Scheme.

Explain, finally, the role of EU's environment policy in the areas of respectively Agriculture, Transport and Energy in the EU.

Question 2

Describe – when possible with a comparison - the following elements of EU's Common Agricultural Policy (CAP):

- The basic system of external protection for imported commodities (minimum import prices)
- The basis system of internal protection for commodities in surplus (intervention buying)
- Quotas
- Reductions in interventions buying prices
- A voluntary set-aside system
- Single Farm Payment

Question 3

Analyse ECB's monetary strategy with special reference to the use and the importance of the Taylor rule in ECB interest rate positions.

Include in your analysis the following aspects:

- the changes in monetary strategy during the existence of the ECB
- the degree of coherence between the monetary strategy and Wyplosz's views on the use of nominal and real convergence criteria
- the significance or not of the so-called "twin-sister" hypothesis
- the degree of success of the monetary strategy in the financial crisis 2008-2009 and in the current debt crisis of some of the euro member states, e.g. Greece, Portugal, Ireland and Spain.

Appendix 1 The Sixth Environment Action Programme of the EC

ACT

Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions on the Sixth Environment Action Programme of the European Community, "Environment 2010: Our future, Our choice" [[COM \(2001\) 31](#) final - Not published in the Official Journal].

SUMMARY

The Sixth Environment Action Programme of the European Community entitled "Environment 2010: Our Future, Our Choice" covers the period from 22 July 2002 to 21 July 2012. The programme is based on the [Fifth Environment Action Programme](#), which covered the period 1992-2000, and on the decision regarding its review.

A strategic approach

This Communication makes it clear that meeting the challenges of today's environmental problems means looking beyond a strictly legislative approach and taking a strategic approach. This approach requires the use of a whole range of instruments and measures to influence decisions made by business, consumers, policy planners and citizens. The Communication proposes five main avenues for strategic action: improving the implementation of existing legislation, integrating environmental concerns into other policies, working in partnership with business, empowering citizens and changing their behaviour, and taking account of the environment in land-use planning and management. Specific actions are proposed for each of these avenues.

To improve the implementation of the legislation, the following specific actions are outlined:

- support for the IMPEL ([EN](#)) network and its extension to the candidate countries;
- reporting on the implementation of environmental law;
- a "name, shame and fame" strategy on the implementation of environmental law;
- the improvement of standards for environmental inspection;
- initiatives to combat environmental crimes;
- pursuing action in the European Court to ensure implementation.

To integrate environmental concerns into other policies, the Communication proposes:

- establishing additional integration mechanisms;
- implementing the Treaty provisions on integration;
- the further development of indicators to monitor the integration process.

Working in partnership with business could involve:

- encouraging a wider uptake of the Community's Eco-Management and Audit Scheme ([EMAS](#));

- encouraging companies to publish their performance and to comply with environmental requirements;
- introducing company environmental performance reward schemes;
- encouraging voluntary commitments;
- establishing an integrated product policy;
- promoting the use and evaluating the effectiveness of the [eco-label scheme](#);
- the promotion of green procurement;
- the adoption of legislation on [environmental liability](#).

To empower citizens and change behaviour, the following actions are suggested:

- helping citizens to benchmark and to improve their environmental performance;
- improving the quality of information on the environment.

To take account of the environment in land-use planning and management, the following actions are proposed:

- publishing a communication on the importance of integrating the environment into land-use planning and management;
- improving the implementation of the Environmental Impact Assessment Directive;
- spreading best practice and fostering the exchange of experience on sustainable development, including urban development;
- including sustainable development in Community regional policy;
- boosting agri-environmental measures within the Common Agricultural Policy;
- developing a partnership for the sustainable management of tourism.

The Sixth Environment Action Programme focuses on four priority areas for action: climate change; biodiversity; environment and health; and sustainable management of resources and wastes.

Climate change

The Sixth Environment Action Programme recognises the fact that climate change poses the main challenge for the next ten years. The objective in this area is to reduce greenhouse gases to a level that will not cause unnatural variations of the earth's climate.

In the short term, the European Union's aim is to achieve the objectives of the [Kyoto Protocol](#), i.e. to reduce greenhouse gas emissions by 8% by 2008-2012 compared with 1990 levels. In the longer term, by 2020 it will be necessary to reduce these emissions by 20 to 40% by means of an effective international agreement.

Community efforts to meet the challenges of climate change will be varied:

- the integration of climate change objectives into various Community policies, in particular energy policy and transport policy;
- the reduction of greenhouse gases by means of specific measures to improve energy efficiency, to make increased use of renewable energy sources, to promote agreements with industry and to make energy savings;
- the establishment of an EU-wide [emissions trading scheme](#);

- improved research on climate change;
- the improvement of the information provided to citizens on climate change;
- a review of energy subsidies and their compatibility with climate change objectives;
- preparing society for the impact of climate change.

Nature and biodiversity

The objective given in the Communication in this area is to protect and restore the structure and functioning of natural systems and halt the loss of biodiversity both in the European Union and on a global scale.

The actions proposed to achieve this objective are as follows:

- the implementation of environmental legislation, in particular in the areas of water and air;
- extension of the scope of the [Seveso II](#) Directive;
- coordination of Community Member States' actions in the case of accidents and natural disasters;
- examination of the need to protect plants and animals from ionising radiation;
- protection, conservation and restoration of landscapes;
- protection and promotion of the sustainable development of forests;
- establishment of a Community strategy for the protection of the soil;
- the protection and restoration of marine habitats and the coast, and extension of the [Natura 2000](#) network to include them;
- reinforcement of controls on labelling, monitoring and traceability of GMOs;
- the integration of nature conservation and biodiversity into commercial and development cooperation policies;
- the creation of programmes for gathering information on nature conservation and biodiversity;
- support for research in the field of nature conservation.

Environment and health

The objective described in the Communication in this field is to achieve a quality of the environment which does not give rise to significant impacts on, or risks to, human health.

The Communication proposes:

- identifying the risks to human health, including that of children and the elderly, and setting standards accordingly;
- introducing environment and health priorities into other policies and standards on water, air, waste and soil;
- intensifying research on health and the environment;
- developing a new system for the evaluation and the risk management of chemicals;
- banning or limiting the use of the most hazardous pesticides and ensuring that best practice is applied;
- ensuring the implementation of legislation on water;
- ensuring the application of air quality standards and defining a strategy on air pollution;
- adopting and implementing the [Directive on Noise](#).

Management of natural resources and waste

The objective is to ensure that the consumption of renewable and non-renewable resources does not exceed the carrying capacity of the environment and to achieve a decoupling of resource use from economic growth through significantly improved resource efficiency and the reduction of waste. With regard to waste, the specific target is to reduce the quantity going to final disposal by 20% by 2010 and 50% by 2050.

The actions to be undertaken are as follows:

- the development of a strategy for the sustainable management of resources by laying down priorities and reducing consumption;
- the taxation of resource use;
- the removal of subsidies that encourage the overuse of resources;
- the integration of resource efficiency considerations into integrated product policy, eco-labelling schemes, environmental assessment schemes, etc.;
- establishing a strategy for the recycling of waste;
- the improvement of existing waste management schemes and investment in quantitative and qualitative prevention;
- the integration of waste prevention into the integrated product policy and the Community strategy on chemicals.

Thematic strategies

The action programme envisages the adoption of seven thematic strategies covering [air pollution](#), the [marine environment](#), [sustainable use of resources](#), [prevention and recycling of waste](#), [sustainable use of pesticides](#), [soil protection](#) and [urban environment](#).

These strategies are based on a global approach, by theme, rather than on certain pollutants or types of economic activity, as has been the case in the past. They set long-term objectives, based on the assessment of environmental problems and on the search for a synergy between the various strategies and with the Lisbon strategy's growth and employment objectives. They also provide an opportunity to simplify and clarify existing legislation.

The international context

The integration of environmental concerns into all aspects of the European Union's external relations is one of the Sixth Environment Action Programme's objectives. This objective takes account of the prospect of European Union enlargement and suggests there should be an extended dialogue with the administrations in the candidate countries on sustainable development, and the establishment of close cooperation with the NGOs and business in these countries. The application of international agreements on the environment is strongly encouraged.

A solid scientific basis

The Sixth Programme proposes a new approach to the development of environmental measures so that the parties concerned and the general public are more involved in their application. This

approach includes a broad dialogue and the participation of industry, NGOs and the public authorities.

The programme will be increasingly based on scientific and economic analyses and on environmental indicators. For this purpose, the Commission will work in close cooperation with the European Environment Agency ([EN](#)).