

Written Exam for the M.Sc. in Economics 2010-I

**Economics of the EU**

Master's Course

19 December 2009

(4-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.

All 3 questions must be answered. Each question enters the total result with the same weight.

## Question 1

Analyse the development of EU's financial integration. Include in your analysis the following sub questions:

1. Describe the difference between the covered interest rate parity condition and the ex ante uncovered interest rate parity condition, and how these two measures may describe financial integration or the lack thereof.
2. Comment on Figure 1 below, in particular possible reasons for the differences in developments.
3. Analyse the relation between the degree of financial integration and the probability of entering and maintaining an optimum currency area.
4. Which degree of competence does the EU have in the area of financial integration (you may here choose if you answer before or after the entering into force of the Lisbon Treaty).

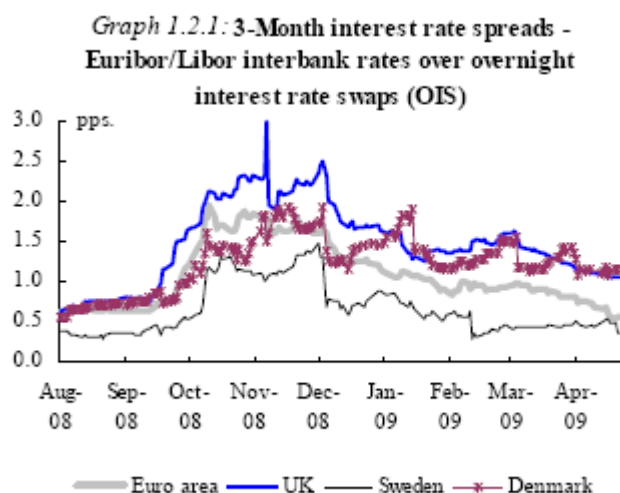


Figure 1 Question 1 Interest rate spreads – EU progress report 2009

## Question 2

Analyse the development of European Central Bank monetary policies. Include in your analysis the following sub questions:

1. Analyse whether the European Central Bank has given due regard to the Balassa-Samuelson effect in its formulation (including the reformulation) of its monetary strategy and in the implementation of monetary policies.
2. Describe the effect of a monetary union on respectively a hard-nosed and a wet-government.
3. Analyse Figure 2 below with respect to the risk of disinflation in the Euro-area and the consequences hereof. What are the means available to the European Central Bank to counteract the risk of disinflation?
4. Describe the mechanisms and the means available to the European Central Bank when it decides to make an intervention.

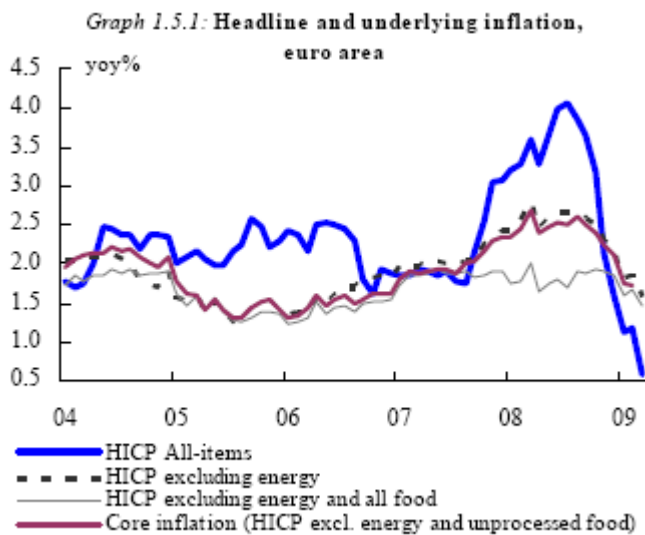


Figure 2 Question 2 Euro area inflation – EU progress report 2009

### Question 3

Analyse the impact of the financial crisis on European Economic Integration. In the light of the recent financial crisis you are asked to make an assessment of its potential impact on European economic integration in the following areas.

In your assessment you are asked to include questions such as a) does the financial crisis lead to more or less integration, b) does the financial crisis underline the need of reform in this area, c) will the financial crisis change the outlook and the structure of this area more permanently even though the financial crisis itself comes to an end.

The areas to be looked upon are the following:

- 1) The Stability and Growth Pact – you may in your analysis of this include Figure 3 below in your analysis.
- 2) The Common Agricultural Policy (CAP)
- 3) Transport and Energy Policy
- 4) Competition policy
- 5) External trade

Table 1.6.1:

#### General government budgetary position - euro area and EU

(% of GDP)	Euro area				Difference vs		EU				Difference vs	
					January 2009						January 2009	
	2007	2008	2009	2010	2009	2010	2007	2008	2009	2010	2009	2010
Total receipts (1)	45.4	44.7	44.8	44.4	0.1	0.0	44.9	44.5	44.1	43.8	-0.2	-0.3
Total expenditure (2)	48.1	48.8	50.1	51.0	1.4	2.2	45.7	48.8	50.1	51.1	1.4	2.1
Actual balance (3) = (1)-(2)	-0.6	-1.9	-5.3	-6.5	-1.3	-2.1	-0.8	-2.3	-6.0	-7.3	-1.6	-2.5
Interest expenditure (4)	2.9	3.0	3.0	3.2	0.0	0.2	2.7	2.7	2.8	3.1	0.0	0.2
Primary balance (5) = (3)+(4)	2.3	1.1	-2.3	-3.3	-1.3	-2.0	1.9	0.4	-3.2	-4.3	-1.6	-2.3
Cyclically adjusted budget balance	-1.9	-2.9	-3.9	-4.7	-0.7	-1.4	-2.1	-3.3	-4.6	-5.6	-0.9	-1.8
Cyclically adjusted primary balance	1.1	0.1	-0.9	-1.5	-0.7	-1.2	0.6	-0.5	-1.8	-2.5	-0.9	-1.6
Structural budget balance	-1.8	-2.8	-3.9	-4.7	-0.7	-1.4	-2.0	-3.1	-4.6	-5.5	-0.9	-1.7
Change in structural budget balance	0.2	-1.0	-1.1	-0.8	-0.2	-0.7	0.1	-1.1	-1.5	-0.9	-0.4	-0.8
Gross debt	66.0	69.3	77.7	83.8	5.0	8.0	58.7	61.5	72.6	79.4	5.2	8.5

The structural budget balance is the cyclically-adjusted budget balance net of one-off and other temporary measures estimated by the Commission services.

Figure 3 Question 3 1) Development of budget in euro area and the EU – EU progress report 2009